Chapter 3

CREATING THE ENVIRONMENT FOR UNLEASHING ECONOMIC GROWTH

Westport Klang

The Malaysian economy has turned around following the global financial crisis and key economic indicators are pointing to a strong rate of economic growth in the immediate term. However, to ensure sustained and robust growth in the long term, several structural challenges will need to be addressed. Growth in investment and productivity lags behind several other countries in the region, as *Chart 3-1* shows, and private investment is far lower than the pre-1997 Asian Financial Crisis level. Malaysia is also encountering more intense competition from its regional peers. In addition, coming out of the recent global financial crisis, many countries, including those in this region, are re-examining their growth strategies and reshaping their economies to meet the more challenging global economic landscape.

In this context, in order for Malaysia to achieve the aspiration of becoming a high-income advanced economy by 2020, where Malaysia must grow at 6% per annum over the Tenth Plan period, the environment for economic growth will need to be transformed to allow a step change in dynamism and productivity. The challenge is to move from an economy that competes on cost

Chart 3-1

Malaysia's productivity growth has declined post-1997

%

Labour productivity growth of selected Asian countries, annual average change

	Pre crisis 1987-97	Post crisis 1998-2007
China	4.5	9.2
India	3.5	4.4
Asian NIEs	4.8	3.4
Malaysia	5.5	2.9
Thailand	5.2	3.1
Indonesia	3.1	3.0
Singapore	4.5	2.4
Philippines	-0.7	2.3

Sources of growth for Malaysia's labour productivity, annual average change

	1987-97	1998-2007
Labour productivity	5.5	2.9
Contribution of		
▪ **Capital**	3.4	1.0
▪ **Education**	0.3	0.3
▪ **Land**	0	-0.1
Total factor productivity	**1.7**	**1.6**

SOURCE: World Bank; Economic Planning Unit and natural resources, to an economy that is driven by productivity, innovation and that is able to nurture, attract and retain talent, companies and capital. In order to move into the league of high-income economies, Malaysia will also need to move from the strategy of diversification of the economic base, which successfully elevated the nation to a middle- income economy, to a strategy which focuses on specialisation in a few selected economic sectors and geographies where Malaysia has a relative competitive advantage.

To make these strategic shifts, a far reaching programme of economic reforms will be undertaken during the Tenth Plan period as follows:

- **Creating a private sector-led economy** by modernising business regulation, liberalising the services sector, removing market distortions, introducing competition legislation and improving the interface between government and business;

- **Supporting innovation-led growth** by shaping a supportive ecosystem for innovation, creating innovation opportunities, putting in place innovation enablers and funding innovation;

- **Rationalising the role of government in business** by increasing privatisation and public-private partnerships (PPPs), establishing a facilitation fund and achieving an appropriate balance between government, government-linked companies (GLCs) and the private sector;

- **Developing small and medium enterprises** (SMEs) as an engine of growth and innovation by reducing regulatory costs borne by SMEs, building capacity in SMEs, supporting the creation of an entrepreneurial culture, strengthening enabling infrastructure, and enhancing access to financing;

- **Competing globally** by supporting Malaysian firms to compete in global markets and competing to attract foreign investment and talent to Malaysia;

- **Putting in place world-class infrastructure for growth** by significantly increasing broadband penetration, continuing to upgrade physical infrastructure to enhance access and connectivity, and ensuring effective sourcing and delivery of energy; and

- **Focusing on key growth engines** by building urban agglomerations, focussing corridors around clusters and developing National Key Economic Areas (NKEAs).

This far reaching programme of reforms will provide the enabling environment for NKEAs to deliver the targeted economic growth, as shown in *Chart 3-2*.

Chart 3-2

Far reaching programme of reforms will provide the enabling environment for NKEAs to deliver the targeted economic growth

CREATING A PRIVATE SECTOR-LED ECONOMY

The creativity, energy and initiative of private enterprises will be harnessed as the primary drivers of Malaysia's growth. To support the private sector and unleash its growth potential, a series of initiatives will be undertaken during the Plan period:

- Modernising business regulation;
- Liberalising the services sector;
- Removing market distortions by rationalising subsidies;
- Introducing competition legislation; and
- Improving the interface between government and business.

Modernising Business Regulation

The regulatory environment has a substantial effect on the behaviour and performance of companies. Private sector participation in the economy and innovation require a regulatory environment that provides the necessary protections and guidelines, while promoting competition. To maximise the innovation potential of an economy, for example, firms need clear price signals and incentives and the flexibility to shift resources as conditions change. Too often, Malaysian firms face a tangle of regulations that have accumulated over the years and now constrain growth. At the same time, regulations that would promote competition and innovation are absent or insufficiently powerful.

In 2007, the Government took a significant step in rationalising Malaysia's regulatory regime by launching PEMUDAH, a special task force to facilitate business. PEMUDAH's substantial achievements include reducing the process of starting a business from nine procedures and 11 days to three procedures and three days, reducing time taken to register standard property titles from 41 days to two days, and reducing time taken for tax refunds to 14 to 30 days compared to one year previously.

Based on the World Bank's Doing Business 2010 report, Malaysia ranked 23rd among 183 countries, as *Chart 3-3* shows. By the end of the Plan period, the Government aims to make Malaysia one of the top 10 nations in the world for doing business. This will not only enhance Malaysia's global competitiveness, but will also make it one of the best places in Asia in which to do business.

To achieve this goal, the Government will begin with a comprehensive review of business regulations, starting with regulations that impact the NKEAs. Regulations that contribute to improved national outcomes will be retained, while redundant and outdated regulations will be eliminated. This review will be led by the Malaysia Productivity Corporation (MPC), which will be rebranded and restructured to ensure it has strong capabilities and resources. MPC will be comprised of relevant experts from business and academia. Its work will complement the efforts of PEMUDAH. Specifically, MPC will:

- Review existing regulations with a view to removing unnecessary rules and compliance costs. Regulations affecting NKEAs will be prioritised;

Chart 3-3

Malaysia ranks 23rd in the World Bank Doing Business 2010 Report

2010 Global ranking

	Ease of doing business	Starting a business	Dealing with construction permits	Registering property	Trading across borders	Enforcing contracts
Singapore	1	4	2	16	1	13
New Zealand	2	1	5	3	26	10
Hong Kong	3	18	1	75	2	3
US	4	8	25	12	18	8
UK	5	16	16	23	16	23
Thailand	12	55	13	6	12	24
Japan	15	91	45	54	17	20
South Korea	19	53	23	71	8	5
Malaysia	23	88	109	86	35	59

SOURCE: World Bank

- Undertake a cost-benefit analysis of new policies and regulations to assess the impact on the economy;
- Provide detailed productivity statistics, at sector level, and benchmark against other relevant countries;
- Undertake relevant productivity research (e.g. the impact of regulations on growth of SMEs);
- Make recommendations to the Cabinet on policy and regulatory changes that will enhance productivity; and
- Oversee the implementation of recommendations.

This review process will draw on the expertise and perspectives of public sector and private sector leaders, who will help identify key issues and the appropriate solutions. An international best practice example is highlighted in *Box 3-1*.

Box 3-1

International best practice example - Australian Productivity Commission

Established in 1998, the Australian Productivity Commission is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. The Commission reviews existing regulations and also conducts in-depth research on important policy issues (e.g. determining drivers of productivity and trade regulations).

The Commission is headed by a chairperson and has between four and 11 commissioners, who are appointed by the Governor-General for terms of up to five years. The Commission uses processes that are open and public; its charge is to make decisions based on overarching concerns for the community as a whole, rather than the interests of any particular industry or group.

It is well resourced, is staffed by high quality people, and has become a highly respected and authoritative voice on important issues - making a significant contribution to regulatory quality, the policy debate, and ultimately on economic outcomes. For these reasons the Australian Productivity Commission has become a model for other countries. In March 2010, New Zealand announced the establishment of a Productivity Commission that will be modelled closely on that of Australia's.

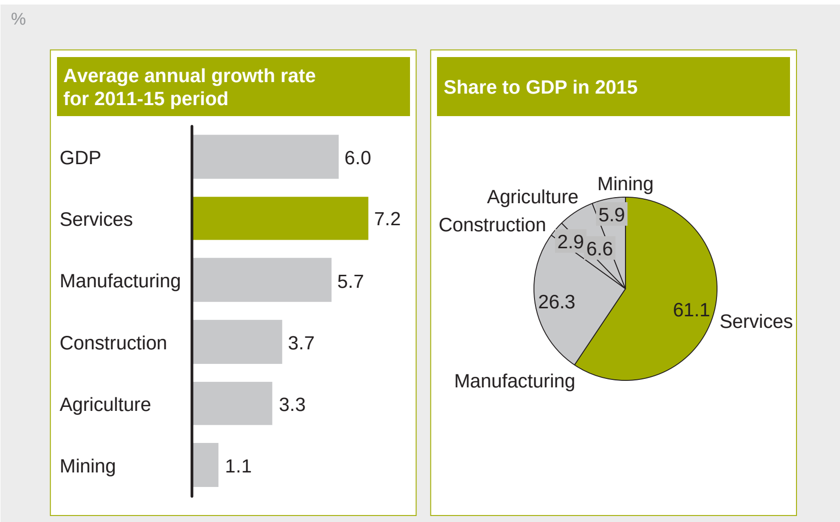
Liberalising the Services Sector

The services sector accounts for 58% of Malaysia's gross domestic product (GDP) and will need to be an important economic growth driver during the Plan period. The sector is expected to grow at 7.2% annually until 2015, raising its contribution to GDP to 61% by the end of the Plan period, as shown in *Chart 3-4*. This growth will depend largely on improving the sector's productivity and attracting new investment. An estimated RM44.6 billion in new investment is required during the Plan period for the services sector to reach the targeted GDP contribution, with an increasing portion from foreign direct investment (FDI). The realisation of this investment will largely depend on the further liberalisation of the services sector. During the Plan period, the services sector will be liberalised under the ASEAN Framework Agreement on Services (AFAS), World Trade Organisation (WTO) and free trade arrangements (FTAs).

In keeping with the AFAS timeline and equity parameters, further liberalisation will be undertaken for all 128 subsectors, allowing at least 70% ASEAN equity ownership by 2015. In this regard, improvements and new commitments will include healthcare, tourism, telecommunications, education, environment, transport and business

Chart 3-4

Services sector is expected to grow at 7.2% annually until 2015



SOURCE: Economic Planning Unit

services subsectors. This builds upon the liberalisation of 65 of the 128 subsectors as at end 2008. In addition to the 128 subsectors, financial and air transport services will also be further liberalised towards meeting the targets for 2015.

Similarly, during the Plan period, the Government will expand on its commitments made to the WTO in 1995 to liberalise 65 services subsectors. Malaysia will make further improvements to its offers covering areas such as professional services, education and telecommunications, as well as tourism and information and communications technology (ICT) services. Malaysia will also continue to negotiate free trade arrangements in the services sector with its major trading partners.

The Government will review domestic policies and regulations that inhibit effective liberalisation of the services sector, including foreign equity restrictions and limits on employment of foreign talent. Rules governing recognition of international qualifications, requirements for commercial presence, composition of board of directors, and residency for expatriates will also be reviewed. The Government will continue to support domestic service providers to build capabilities and prepare for the rise in competition after liberalisation.

Removing Market Distortions by Rationalising Subsidies

Subsidies currently represent a substantial financial burden to the Government, equivalent to 4.7% of GDP or approximately RM12,900 per household per annum. In addition, where subsidies are dispensed via price controls, the lack of market-based pricing often leads to overconsumption, waste and the misallocation of resources. During the Plan period, subsidies and price controls will be gradually rationalised to remove market distortions, which has already begun with sugar.

Subsidies currently provided to producers will be converted to productivity-based incentives, for example, in the fishing industry, incentives will be provided based on volume of fish landing rather than input subsidies. Price controls that are directed at industry and consumers will be gradually removed to reflect market prices. Consumption and investment decisions made by industry and consumers can then be made on a true economic basis, and competitiveness and productivity can then be better assessed and benchmarked.

The Government, however will not compromise on delivering social services like education, healthcare and welfare. Any rationalisation of subsidies for these services will be targeted towards more efficient and effective delivery of these services without compromising service standards. Vulnerable groups and those in low-income brackets who require support will continue to be provided with assistance, as a portion of the savings from subsidy rationalisation will be directed towards them.

Introducing Competition Legislation

Greater competition will be promoted in the domestic market to attract and sustain a high level of private investment and strengthen the business environment to become more transparent and vibrant, whereby businesses compete on quality, value and innovation. The Competition Law will be introduced to govern all firms including GLCs against anti-competitive practices. The law will provide control over abuse of market dominance and anti-competitive agreements between enterprises, including cartel behaviour that could restrict and distort competition in the market.

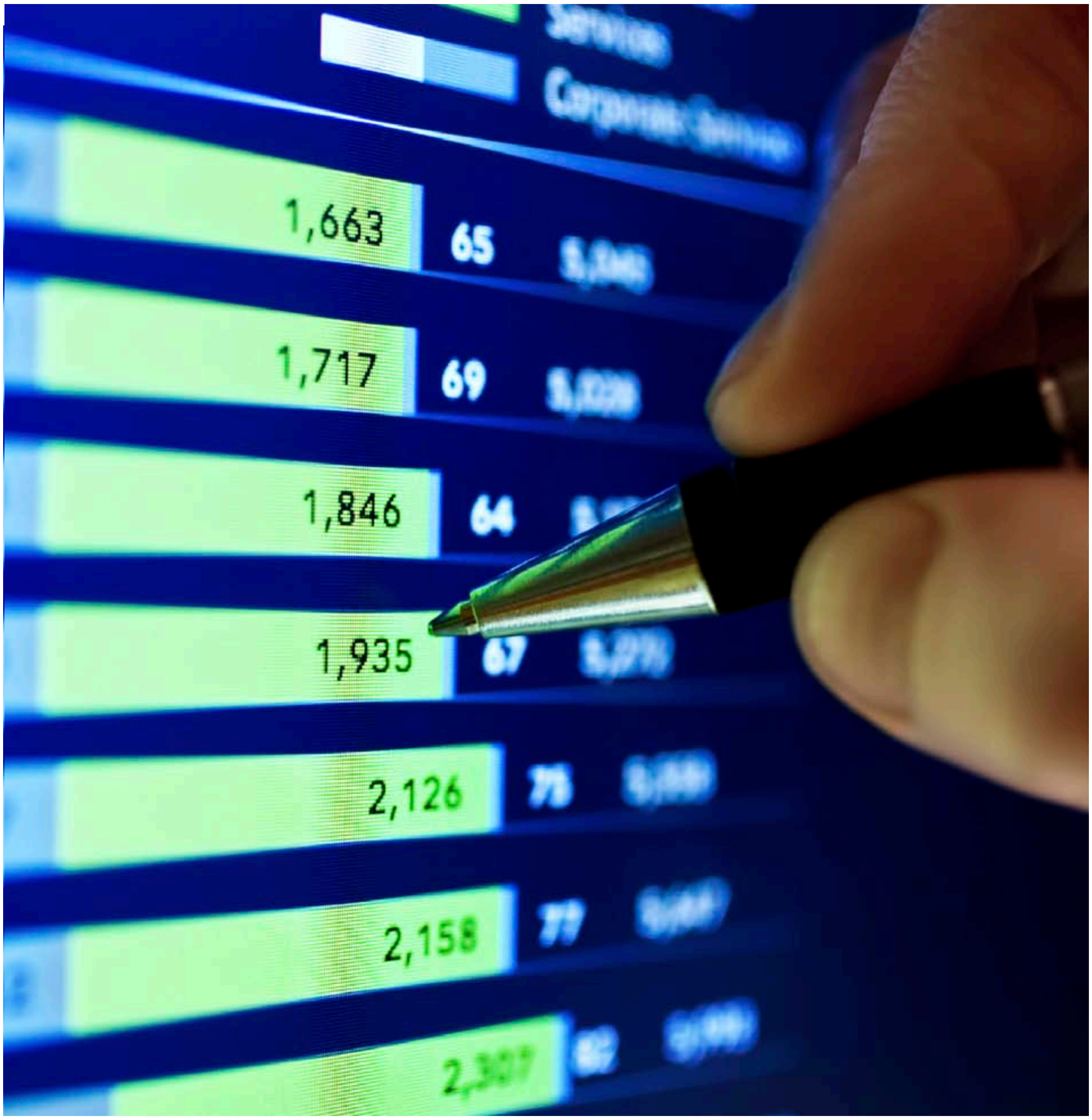
The Competition Law was enacted by the Parliament in 2010. A Competition Commission and a Competition Appeal Tribunal will be established by the end of 2010 to ensure smooth and effective implementation of the legislation. Enforcement will be implemented after an 18-month grace period to allow for advocacy and to familiarise businesses with the legislation.

Improving the Interface between Government and Business

In addition to reforming the policy and regulatory environment, the Government will also undertake a series of actions to improve the interface between business and government to make investing and operating in Malaysia more attractive. Improving the quality and timeliness of government services, and increasing transparency and certainty in government decision-making will yield significant productivity gains. During the Plan period, the Government will continue to enhance the delivery and efficiency of services to business by leveraging ICT. Some of these initiatives are outlined in *Table 3-1*.

Table 3-1

Applying a business-centric approach and facilitating trade	
Area	**Description**
MyGovXchange for businesses	• The existing MyGovXchange will be enhanced as the single gateway for businesses, covering registration, licence application, licence expansion as well as applications for loans and grants from various public agencies.
SSM Enterprise Services Gateway	• Building upon the introduction of a single company identification system, MyCoID, the SSM Enterprise Services Gateway will enable simultaneous registration across multiple agencies following the incorporation of a company with SSM. This reduces the need for companies to register multiple times across various different agencies. • The system will be expanded from five agencies to include all public agencies dealing with business entities.
National Single Window (NSW) for trade	• NSW is an online-based single point of entry for submission of trade data and information. It avoids repetition of provision of the same data multiple times and facilitates a quick and easy release and clearance of cargo. • During the Plan period, the services under NSW will be expanded to include services of Free Zone declarations, Dangerous Goods declarations, non-customs permits, phytosanitary certificates and Convention of International Trade on Endangered Species certificates.
Reducing bureaucracy and streamlining procedures	• To facilitate trade, documentation requirements will be reduced and streamlined with the aim of achieving a paperless transaction environment in line with international standards. • A single Customs Portal will be developed to reduce bureaucracy and facilitate the supply of information and services; it will be supported by an amendment to the Customs Act 1967.
Participation by banks in Financial Process Exchange (FPX)	• The FPX is an online payment gateway for any business-to-business or business-to-consumer transactions with participating banks. • During the Plan period, Bank Negara will define a timeframe for all banks to participate in the FPX to enable a more effective nationwide rollout of the NSW Electronic Customs Duty Payment.
MyExport portal	• Malaysian exporters registered with MATRADE are able to access a variety of services such as up-to-date trade information on trade events and activities, trade statistics and market alerts through the MyExport portal.


1,663
65
1,717
69
1,846
64
1,935
67
2,126
2,158

SUPPORTING INNOVATION-LED GROWTH

Innovation is a vital ingredient to increasing productivity and ultimately raising the competitiveness of the economy. Through innovation and the exploitation of new ideas, additional value can be captured from the same base of capital and human resource.

Innovation can come in many forms, for example, from improvements in products, processes, and organisational structures. Innovation involves both the creation and diffusion of knowledge. The bulk of innovation in an economy comes from a myriad of companies, institutions and individuals making improvements to products or processes, or identifying new markets and opportunities on an ongoing basis. The Government's innovation agenda will therefore promote innovative activity across the Malaysian economy. The innovation policy will require wide-ranging reform to ensure that Malaysia becomes an efficient, flexible, and vibrant business environment.

The business environment is a critical ingredient of this innovation process, for example, by ensuring a competitive environment with the right price signals, companies will see a clear incentive to innovate. Similarly, by allowing for companies to be efficiently created and ended, resources can be flexibly reallocated towards the highest growth areas of the economy.

Investing in science, research and education can also serve as a powerful engine of innovation in an economy. However, the national innovation agenda has not achieved the desired level of progress. For example, the declining capacity of knowledge generation organisations is evidenced by the decrease in the number of researchers from 21.3 per 10,000 labour force in 2004 to 20.3 per 10,000 labour force in 2008. Gross expenditure on R&D (GERD) declined from 0.69% of GDP in 2004 to 0.21% of GDP in 2008, compared to about 3% of GDP in Singapore. Malaysia targets to increase GERD to 1% of GDP by 2015. The Government will take a series of actions to strengthen Malaysia's innovation system along four key dimensions:

- Shaping a supportive ecosystem for innovation;
- Creating innovation opportunities;
- Putting in place innovation enablers; and
- Funding innovation.

Shaping a Supportive Ecosystem for Innovation

The Government will support innovation by creating an environment in which companies, research organisations, and individuals are better able to engage in innovative activity. These measures will include developing human capital, investing in innovation infrastructure and nurturing new ventures through incubators.

Education and Training

The success of the innovation agenda hinges on a Malaysian citizenry that values openness, embraces critical thinking and encourages risk taking and experimentation. This will require an education system that nurtures creative and analytical human capital. An important step is to develop world-class educational institutions with world-class leadership, particularly universities.

To that end, the Government will commit to using global search to headhunt the best academic leadership for programmes that support innovation, and will also partner with leading global research institutions to ensure deep and sustained capability transfer. In parallel, education and training will be brought closer to industry by allowing greater mobility of academics to conduct contract research and consultancy and for industry practitioners to teach in universities. A programme will be introduced to promote participation from the industry to co-sponsor employees to obtain industrial PhDs.

K- Infrastructure

Information technology (IT) infrastructure will be substantially extended under the Plan period to facilitate connectivity to the global knowledge network. The Government will target 75% of households to have broadband by 2015, and the Malaysia Research and Education Network (MyREN) will be further promoted to allow Malaysian researchers to connect to the global research community.

The Government will also focus on developing comprehensive innovation and research and development (R&D) infrastructures in selected areas where Malaysia has inherent strength and competitive advantage (such as downstream palm oil, modern agriculture, and oil and gas) in order to become a world leader in these areas. Innovation and R&D initiatives will also be aligned with NKEAs and the geographic cluster strategy to ensure that the science and technology development is consistent with the overall economic agenda.

Trade and Investment Policy

Trade and investment policy will be biased towards building innovation capabilities as well as market access and production and volume of investment. Incentive packages for FDI will have strict conditions for transfer of knowledge based on key performance indicators (KPIs), and will be reviewed every three to five years. Incentives will also be provided to multi-national companies (MNCs) for establishing research centres in Malaysia. In addition to market access, FTAs will be leveraged for knowledge transfer through programmes such as student and knowledge worker exchange and technology development collaborations.

Insolvency Law

The insolvency law pertaining to companies and individuals will be simplified to support a culture of taking calculated risk, eliminate the stigma of failure and allow those who failed in the first instance to continue being economically active. Review of the bankruptcy law is expected to be completed by end 2010, and to ensure a more efficient process in the administration of insolvency, the Malaysian Department of Insolvency will be corporatised by 2015.

Incubator Programme

Incubators are an important tool for the creation and nurturing of new ventures and entrepreneurs. However, the impact, effectiveness and sustainability of incubators towards this end has been mixed. For incubators to serve as an effective instrument for enhancing national innovation capacity, new approaches will be adopted in the Tenth Plan as follows:

- Funding for incubators will be gradually shifted towards private sector financing with PPPs as an intermediate step;

- Incubators will be encouraged to shift towards the third generation model that moves beyond provision of workspace to include business and development services. Incubator managers and operators will receive specialised training to upgrade professionalism; and

- The establishment of new incubators will be subjected to strict evaluation criteria to ensure financial sustainability, and the impact and effectiveness of incubators will be measured based on clear KPIs such as rate of company maturation into new enterprises.

K-SMEs

Knowledge SMEs (K-SMEs) have an important role to play as a catalyst of innovation among Malaysian companies. The Government will support development of K-SMEs by providing access to special financing schemes, improving research and innovation capabilities as well as providing specialised skills training. In addition, foreign K-SMEs in key services and manufacturing activities will be encouraged to set up operations in Malaysia to bring in specialised skills and knowledge as well as create a competitive environment.

Creating Innovation Opportunities

The Government will deliberately act to create incentives and opportunities for Malaysian companies to invest in innovation, through the public procurement process and the design of regulations.

Public Procurement

An improved public procurement process is a key opportunity to increase the level of innovation in Malaysian companies. Public procurement, though substantial, has not been a major driver of innovation as it has not spurred adequate competition. However, the recent increased transparency in open bidding is expected to enhance competition and drive innovation as firms compete on price and efficiency. Additionally, procurement will be used to create demand for innovation and push SMEs to develop products in areas that are of benefit to the nation and have larger commercial potential, as shown in *Box 3-2.*

Regulation

Regulatory change is a key driver of innovation as firms compete to develop new products that are more efficient, greener and safer. Other advanced economies have created leading global companies through regulatory reforms that have forced innovative solutions. During the Tenth Plan, several regulatory changes are expected to drive innovation.

There will be a push towards green technology through the National Green Technology Policy, in preparation for green products and services becoming the preferred choice for public procurement. To support this, the green technology financing scheme will continue to issue credit guarantees of 60% for companies developing or using green technology. Firms will also be encouraged to meet Malaysian Standards and recognised international standards for goods and services such as Hazard Analysis and Critical Control Points and Good Manufacturing Practice.

Box 3-2

Catalysing innovation through public procurement: The case of the electronic passport

When the Malaysian Government introduced the electronic passport in March 1998, it became a pioneer in the transformation of cross-border security. At the time, printed travel documents were the worldwide standard. Since then, other countries have followed suit, and adoption of electronic passports accelerated after International Civil Aviation Organization (ICAO) recommended putting chips in passports in 2003.

More importantly, because the Malaysian Government took the bold step of endorsing a new product that was untested, it catalysed the development of the electronic passport business.

Follow-on projects included the Auto Gate at airports and the Passport Renewal Kiosk.

The vendor that pioneered the electronic passport has since become a global company providing electronic passport solutions to more than 12 countries. As the first customer of the electronic passport, the Government of Malaysia has become a critical reference account for the company, helping its overseas expansion.

Putting in Place Innovation Enablers

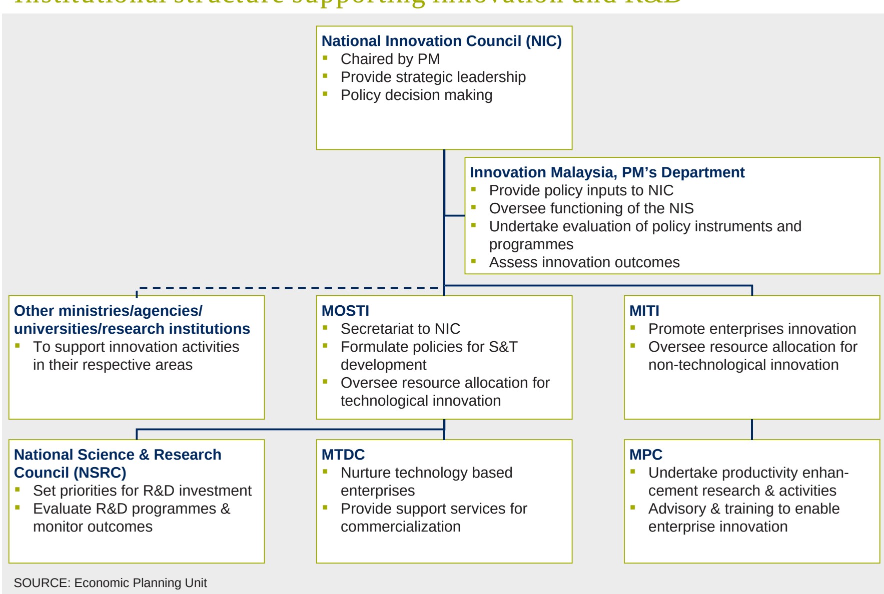
The innovation institutional structure and intellectual property (IP) regime will be strengthened during the Plan period as they are critical innovation enablers.

Institutions

A review of the institutional structure supporting innovation and R&D is imperative to improve innovation outcomes. Innovation by nature is multi-dimensional and multi-sectoral, and requires integration of a large number of policy areas. It is influenced by the structure of institutions and its performance depends on the functioning of these institutions. However, in Malaysia, institutions have, over time, expanded their original scope, thus creating overlaps and inefficiencies in policy and programme implementation. Therefore, a reform of institutional structure will be undertaken during the Plan period, as shown in *Chart 3-5*. The institutional structure will be headed by the Prime Minister's Department in order to have the breadth of scope to take into account innovation across all sectors and all parts of the innovation value chain.

Chart 3-5

Institutional structure supporting innovation and R&D



An additional important institutional element that requires examination is the research system. Historically, Malaysia's research organisations were established with specific missions (e.g. Rubber Research Institute of Malaysia was for rubber research). With the changing economic landscape coupled with the expanding role of the higher education institutions, there is a need to realign research organisations with priority economic sectors and reduce overlap.

Intellectual Property

The IP regime, including the expertise and institutional capacity of IP examiners and agents, will be upgraded to improve the investment climate and investor confidence and provide a dynamic environment for the creation of new and innovative products and services. In order to further improve the protection regime and shorten the application and approval process for trademarks (from 15 months to 12 months) and patents (from 39 months to 32 months), web-based facilities will be provided including a voluntary registration system for copyright protection and a patent search database. To incentivise the filing and maintenance of IP, the Government will make available grants and preferential rate loans.

Funding Innovation

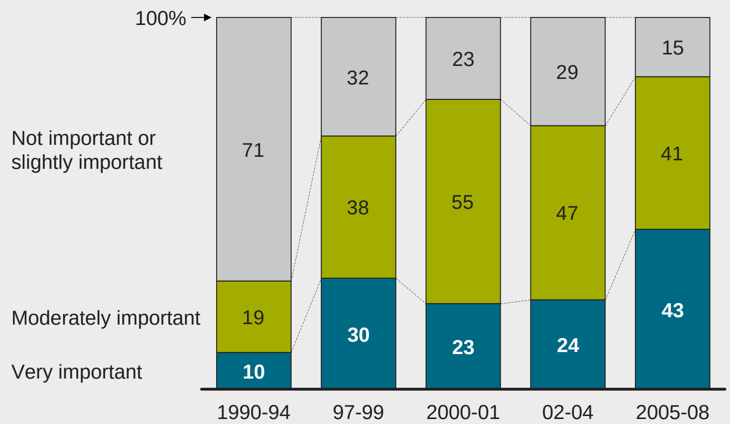
Funding is critical to innovation, but typically requires government support in early stages of development and commercialisation, as markets frequently do not supply the volume of capital to these areas that is optimal for economic development of the country, as shown in *Chart 3-6*. To this end, the Government will support R&D and commercialisation across the value chain under a number of initiatives during the Plan period, as shown in *Chart 3-7*.

During the Plan period, the risk capital industry, will be strengthened to increase access to funding for innovative start-ups. New funding modes for public venture companies will be introduced to better match investment risk profiles and promote greater private sector participation and risk-taking. Government funding to public venture companies namely Malaysian Technology Development Corporation (MTDC) and Malaysian Venture Capital Management Berhad will shift from the current lending model to an equity structure. A ***Mudharabah*** Innovation Fund (MIF), with an allocation of RM500 million, will also be introduced to provide risk capital to government-backed venture companies. The MIF will offer enhanced risk return profile to investors and thus attract greater private risk capital to co-invest, and gradually reduce dependence on public funds.

Chart 3-6

84% of firms state lack of funding as hampering innovation

Share of firms considering 'lack of appropriate source of finance' as factor hampering innovation activities, according to importance, Percent



SOURCE: MASTIC (2006); Lee and Lee (2006); Economic Planning Unit

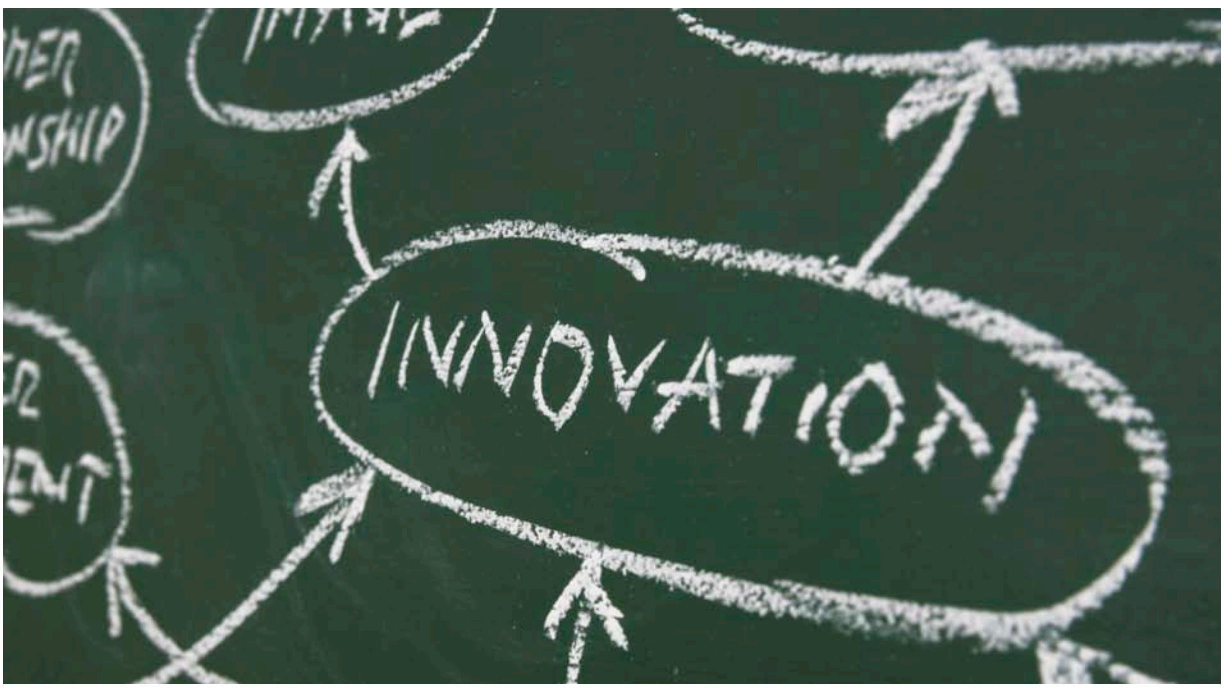
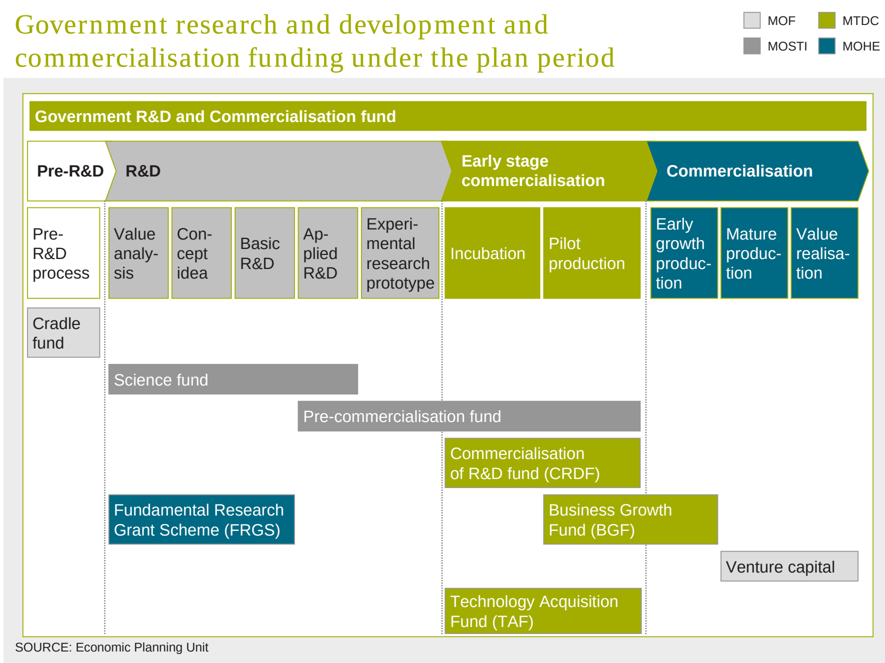


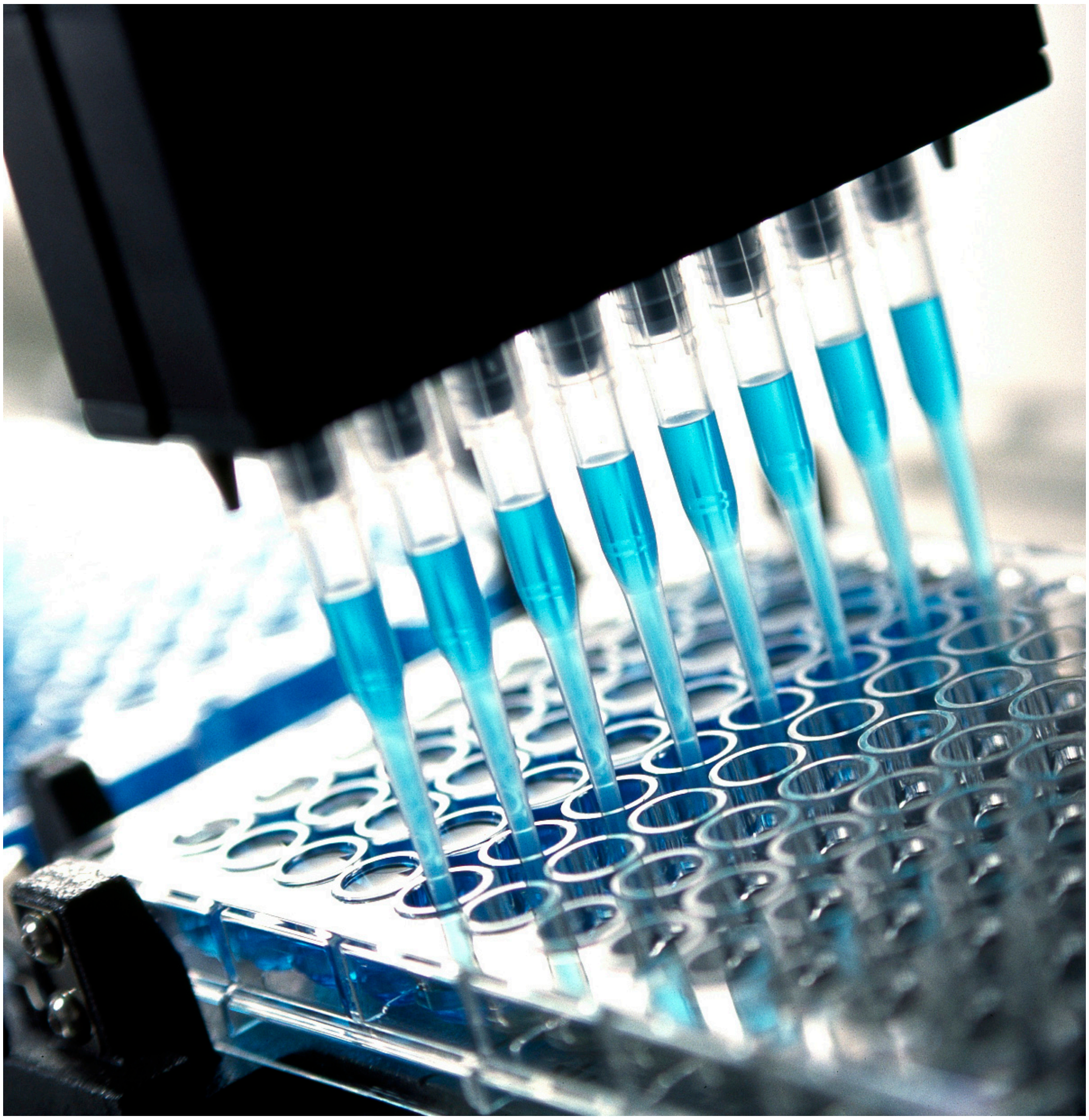
Chart 3-7



To bridge the gap between invention and commercialisation of high-technology products, the Government will establish a Business Growth Fund with an allocation of RM150 million. The fund will focus on supporting companies commercialising public sector research results and will provide hybrid grant-equity funding. The goal is to support companies until they can generate sufficient commercial value to attract venture capital funding and financing from other institutions.

Existing public venture capital initiatives will be rationalised. MTDC, will be restructured so that it focuses on its developmental mandate of nurturing technology transfer and commercialisation, while a new technology investment company will be set up to manage funds and investments transferred from the MTDC and Khazanah Nasional.

The Government will continue to fund innovation by allowing tax deductions for R&D and providing matching grants to promote private sector funding of R&D and commercialisation. In addition, a dedicated programme known as 1-InnoCERT, which assesses the innovation level of enterprises, will further stimulate R&D activities through funding incentives such as access to preferential rate loans, credit guarantees and grants.



RATIONALISING THE ROLE OF THE GOVERNMENT IN BUSINESS

In order to increase private sector participation in the economy, active steps will be taken to rationalise the role of the Government and GLCs in business. Three major initiatives will be undertaken towards this end, namely:

- Increasing privatisation and PPPs;
- Establishing a facilitation fund to provide support to private sector for projects of high strategic importance; and
- Achieving an appropriate balance between the Government, GLCs and the private sector.

Increasing Privatisation and Public-Private Partnerships

Malaysia has been implementing privatisation programmes since 1983 and has already established 510 privatisation and PPP projects in the transportation, road, communications, health and energy sectors. Under the Ninth Plan, 22 projects with an estimated value of RM12 billion were undertaken via privatisation and PPP.

A new wave of privatisation will be implemented under the Tenth Plan in order to increase private investment in the economy, improve efficiency in the delivery of services and relieve the financial burden of the Government. Privatisation and PPP will be substantially intensified under the Plan period with 52 projects with an estimated value of RM62.7 billion already under consideration. Projects under consideration include seven toll highways, five Universiti Teknologi MARA branch campuses, the Integrated Transport Terminal in Gombak, privatisation of Penang Port, and redevelopment of Angkasapuri Complex, Kuala Lumpur as Media City.

To ensure creation of value, strategies to strengthen privatisation and PPP will include:

- Monetisation of public sector assets through outright sale, joint venture or long-term lease of land with commercial potential, such as the Rubber Research Institute in Sungai Buloh and 1Malaysia Development Berhad land development project in Sungai Besi;
- Putting in place rigorous checks to ensure that prospective companies meet a minimum set of criteria, including financial standing, track record and management excellence;
- Strengthening the monitoring framework including establishing a strong project monitoring unit to ensure successful implementation of projects and adherence to contractual obligations; and

- Adopting value for money drivers such as optimal distribution of risks between the public and private sector, whole life costing, output specification that allows bidders to innovate in the design of the project, competition that provides fair value and performance-based payment mechanism.

Establishing a Facilitation Fund

A fund will be established to facilitate private sector investment in projects with high strategic value to the nation and multiplier effects. The RM20 billion fund will be designed to bridge the viability gap for private investment in priority areas such as infrastructure, education, tourism and health projects. Priority will be given to new investment and large scale ventures that are in line with the strategic priorities of the country. Projects currently under consideration include the Senai Hi-tech Park in Iskandar Malaysia, Johor and the Raw Water Supply for Industrial Complex in Tanjong Langsat, Johor.

Projects with a minimum capital cost or investment of RM100 million will be eligible for assistance. The private sector will be required to finance and undertake all risks with government funding only used to improve viability of the project. Applicants must prove that they have secured the financing for the project before funds can be disbursed.

The fund will be provided to finance land cost and basic infrastructure such as construction of access roads, bridges and provision of water supply required to make a project viable. The utilisation will be on the basis of reimbursable or progress payments. The Public-Private Partnership Unit (3PU) of the Prime Minister's Department will be the secretariat responsible for the processing of approvals, disbursement and monitoring of the fund.

Achieving an Appropriate Balance between Government, GLCs and the Private Sector

In the pursuit of economic growth there is a need to ensure an appropriate balance between government, GLCs and the private sector, as well as to create an appropriate separation between regulator and operator. This is necessary to accelerate private sector investment and create an effective platform to regionalise and globalise Malaysian firms.

Rationalising the Role of GLCs in the Economy

The role of GLCs will be rationalised to focus on areas that support the creation of a vibrant private sector while withdrawing from areas that do not enhance value creation. Non-core and non-competitive assets of GLCs will be gradually divested in areas where new strategic shareholders have the potential to enhance value creation. However, for new growth areas where entry barriers are high with little or non-existent private sector activity, GLCs will continue to catalyse and nurture development of the sectors to lower entry barriers and help build the critical mass required to stimulate private investments. GLCs will also co-invest with the private sector to venture into new markets and ensure Malaysian firms achieve a larger footprint globally. Such collaboration will promote the concept of inclusiveness and crowding-in private investment.

The Government will also ensure a level playing field between GLCs and the private sector with no preferential treatment accorded to GLCs. Introduction of the Competition Law will also ensure fair competition for all companies including GLCs and will control against abuse from market dominance.

Rationalising the Role of the Government in the Economy

To rationalise the role of the public sector, privatisation of companies under Minister of Finance Incorporated such as Percetakan Nasional Berhad, CTRM Aero Composite, Nine Bio Sdn. Bhd. and Inno Bio Sdn. Bhd. will be completed during the Plan period. The Government will divest its ownership stakes in such a way as to ensure that these assets are broadly held and that the divestment and privatisation initiatives will not affect public interest or the well-being of the *rakyat*. In carrying out divestments, rigorous checks will be put in place to ensure that they are in the public interest and transparent processes will ensure that potential private sector bidders meet a minimum set of criteria, including financial standing, success in business expansion and management excellence, and that their proposals support the 1Malaysia cause.

Separating the Role of Regulator and Operator

Consistent with the objective of promoting a transparent, sound and fair regulatory environment to spur the private sector, a clear delineation between regulator and market players will be introduced. In this regard, during the Plan period the role of government will be reviewed in areas such as public healthcare, electricity supply and telecommunications. This will remove distortions, promote healthy competition between all players including GLCs, reduce cost of doing business and create the right demand and factor conditions.

DEVELOPING SMEs AS AN ENGINE OF GROWTH AND INNOVATION

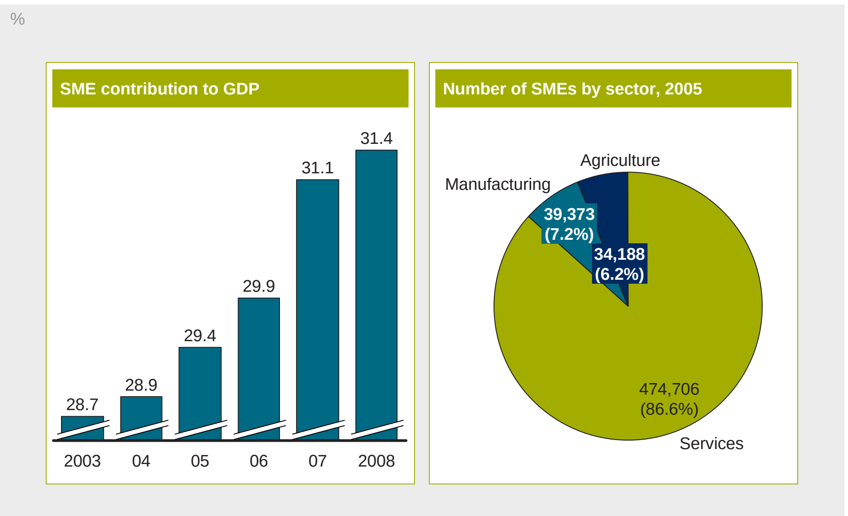
Representing 99.2% of all businesses in Malaysia and contributing 56.4% of total employment in the country, SMEs constitute an important component of the Malaysian economy and have the potential to be a powerful engine of growth and innovation. During the Ninth Plan period, despite considerable challenges, value added of SMEs grew at 7.8%, faster than the overall economic growth. Consequently, SME contribution to GDP increased from 29.4% in 2005 to 31.4% in 2008, as shown in *Chart 3-8*. This was mainly attributed to policy initiatives introduced by the Government including better coordination among the ministries and agencies with the establishment of the National SME Development Council (NSDC). However, the contribution of Malaysian SMEs to GDP remains low compared with benchmark countries in Asia Pacific, as shown in *Chart 3-9* and there is scope to enhance productivity level among SMEs by addressing structural issues.

The Government is committed to unlocking the growth and innovation potential of SMEs over the Plan period to create domestic, regional and global champions. Towards this end, the following initiatives will be undertaken:

- Reducing the regulatory costs borne by SMEs;

Chart 3-8

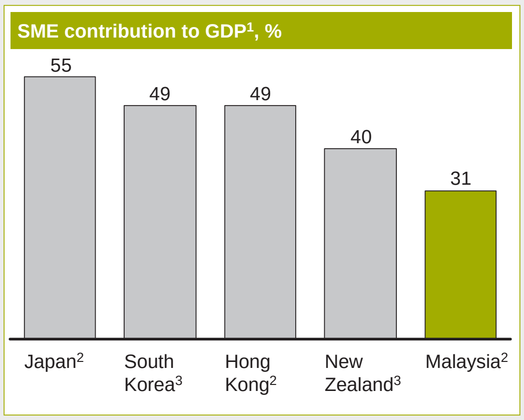
SME contribution to GDP has increased, with 87% of Malaysian SMEs in the services sector



SOURCE: Department of statistics Malaysia, Economic Planning Unit

Chart 3-9

Contribution to GDP of Malaysian SMEs is relatively low compared to other countries



1 Calculated as value added to economy, when contribution to GDP not available. 2 2008. 3 2006

SOURCE: 'Strategy Package for Higher Growth and Structural Change, 2009' Economic Planning Unit; MoF Policy Research Institute, Japan.

- Building capacity and capabilities of SMEs;
- Supporting the creation of an entrepreneurial culture;
- Strengthening support systems for SMEs; and
- Enhancing access to financing for SMEs.

SME Corp. Malaysia, as the central coordinating agency, in collaboration with other relevant ministries and agencies will be responsible to deliver the SME development targets. SME Corp. Malaysia will coordinate programmes, including funding offered by various ministries and agencies, to reduce redundancy and inefficiency as well as track and assess the impact of the programmes. It will report annually to the NSDC chaired by the Prime Minister.

Reducing Regulatory Costs Borne by SMEs

Many regulatory issues are felt disproportionately by SMEs, who typically do not have the financial resources to deal with regulatory requirements in a cost-effective manner. Two critical issues are ease of starting and closing a business, which the World Bank's 2010 survey ranks Malaysia at 88th and 57th respectively. During the Plan period, in order to encourage entrepreneurial activity, the Government will exempt some of the more costly business regulations for companies employing five or fewer people until the company expands beyond five employees. Regulations will be eased for these companies in areas such as registration of business and employment requirements. International experience has shown that this can be a highly effective method of stimulating entrepreneurship, as shown in *Box 3-3*.

Building Capacity and Capability

SME growth is currently constrained by a lack of skilled labour. Programmes to address this in the Plan period include:

- **MNC/large company training.** Employees of SMEs that supply products and services to MNCs and large companies will be given hands-on training to upgrade their knowledge and skills. This will ensure SMEs are able to meet the specific requirements and standards of these large companies;

- **Skills training programmes.** Courses in management, finance, marketing and ICT applications will be delivered by government-recognised training institutes, targeting 20,000 SMEs during the Plan period;

Box 3-3

International examples of governments encouraging entrepreneurial activity

The French government introduced the 'auto-entrepreneur' scheme in 2009 as a way to encourage more start-up and entrepreneurial activity. The scheme includes measures to improve cash flow among young companies, by allowing them to spread out social security and income tax costs; measures to make business registration simpler and less costly; and providing better protection of personal assets in bankruptcy. The scheme has exceeded expectations, with an estimated 320,000 businesses already registered under the scheme and France saw a 75% surge in new business registrations in 2009.

In addition to encouraging entrepreneurs to launch businesses, governments have also adopted policies to help them evolve to employer status (as most businesses never get beyond employing the owner). For example, New Zealand has introduced a payroll subsidy for firms that employ five people or less. This is intended to remove one of the costs associated with employing additional staff: using a payroll agent. Other measures that have been considered are exempting SMEs from aspects of employment law (e.g. hiring and firing) and occupational safety and health provisions.

- **Medium-term industry training maps.** To support SMEs in human capital management, the Government will collaborate with trade and industry associations to develop medium-term training maps and undertake industry-related training; and

- **Leveraging training resources abroad.** The Government will assist SMEs to obtain training in areas which are not available locally by engaging foreign trainers and experts. Malaysia will also foster links with training centres abroad via government-to-government cooperation to develop specialised courses for SMEs.

Supporting the Creation of an Entrepreneurial Culture

The Government is committed to investing in creativity by stimulating entrepreneurship. To spur the number of business start-ups and encourage a culture of entrepreneurship in Malaysia, the Government will enhance the SME-University Internship Programme. Under this programme, university students with specific skills will be assigned to a business for two to three months to gain work experience and to update knowledge of business practices. The Government will also promote entrepreneurship to young Malaysians by sponsoring business plan competitions at schools and universities, introducing business-related curricula, and funding public campaigns that showcase successful Malaysian entrepreneurs. The target is to see 2,000 new businesses launched by students and graduates by the end of the Plan period.

Strengthening Support Systems for SMEs

The support system for SMEs will be improved on several fronts during the Plan period to allow SMEs to fulfil their potential:

- To increase acceptance of SME products and services, the National Mark quality certification will be further promoted. Additionally, in order to support SMEs in developing branding, capabilities training will be provided in collaboration with universities and the mobile branding and packaging gallery initiative, which provides advisory services, will also be expanded to provide coverage to smaller towns. Additionally, specialised retail outlets will be established nationwide with private sector participation to promote and market SME products and services;

- To support innovation, 1-InnoCERT will be introduced to certify SMEs on the basis of innovation and commercialisation achievement. SMEs that receive 1-InnoCERT certification will receive benefits such as tax deduction for R&D activities and priority in government procurement. By 2015, it is targeted that 500 SMEs will be 1-InnoCERT certified; and

- To improve outreach, SME Corp. Malaysia will expand field offices with business centres to all states. These offices will disseminate information on funding and incentives, provide counselling and coaching, and act as a clearing house for all issues related to SMEs. An online centralised trade information platform will also be in place to increase access to trade opportunities overseas.

Enhancing Access to Financing for SMEs

One of the key requirements for SME growth is access to financing to fund operations and capital investment. SMEs continue to receive good access to financing from financial institutions with an approval rate of 82% between 2006-2009. During this period, 524,000 SMEs benefitted from RM220 billion of financing. SMEs' share of business financing from banks increased to 40% at end-March 2010 from 27% at end-1998. Malaysia was ranked number one by the World Bank in the category of 'Getting Credit' for three consecutive years from 2008 to 2010.

However, some early-stage SMEs in new growth areas continue to have difficulty in obtaining financing and guarantee facilities due to the lack of a proven track record. In order to enhance access to financing to such SMEs, the following programmes will be put in place:

- **Venture capital and private equity**. The development of the venture capital and private equity industry will be accelerated to provide risk capital to innovative SMEs in new growth areas;

- **Financing and guarantees**. Special financing schemes by development financial institutions and other participating institutions will be provided to SMEs in new growth areas;

- **Preferential loans and hybrids**. In order to introduce greater accountability and ownership and establish a good credit culture, financial support will be provided to SMEs in the form of preferential rate loans or hybrid grant loans. Grant schemes will be reduced in stages and only be utilised as a form of incentive for SMEs that excel. These loans are intended to help SMEs acquire business premises, upgrade equipment and finance working capital;

- **Working Capital Guarantee Scheme (WCGS)**. The scheme, with an allocation of RM7 billion, was introduced under the stimulus package in 2008 to assist companies during the economic slowdown. The WCGS will be reintroduced.

- **Financial help desks**. Financial advisory services will be enhanced with the setting up of financial help desks at trade associations and chambers of commerce, which will be promoted via road shows to enhance awareness; and

- **Diagnostic tool**. Financial institutions will be encouraged to adopt SME Competitive Rating for Enhancement (SCORE), a diagnostic tool for rating SME performance at the firm level, as a complementary tool to assess credit worthiness of SMEs.

With the financial assistance as well as the advisory services and training, it is targeted that 16,000 SMEs will be able to upgrade their business and improve their star rating under the SCORE system in the Plan period.

COMPETING GLOBALLY

Malaysia operates in an increasingly competitive regional and global environment. As a relatively small economy, Malaysia's success in achieving its growth targets will be determined in large measure by how well it competes in sales of goods and services on the global market, as well as how well it competes for capital, firms and talent. Based on the International Institute for Management Development's World Competitiveness Year Book 2010, Malaysia's ranking improved significantly to 10th position from 18th in 2009, as shown in *Chart 3-10*. During the Plan period, the Government will build upon its improved competitiveness position by focusing on two key areas:

- Competing in global markets to ensure that Malaysia participates successfully in international trade; and

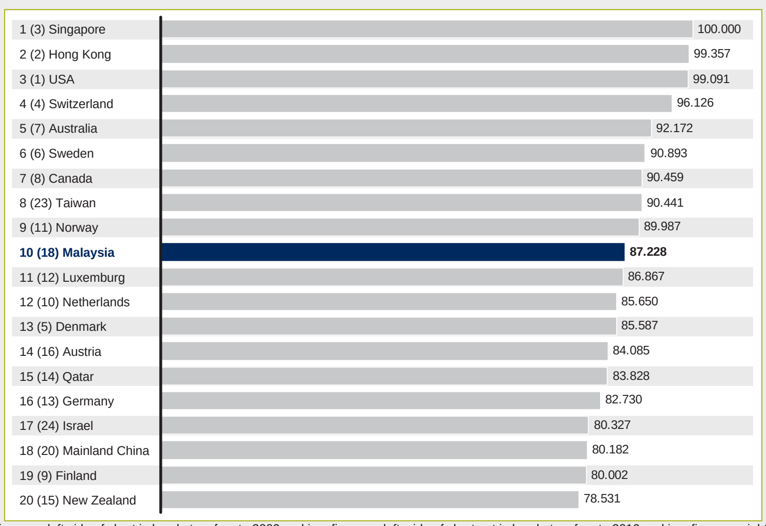
- Competing strongly to attract foreign talent and investment to Malaysia.

Competing in Global Markets

International trade is a significant part of the economy. Currently, the value of trade is more than double that of GDP, with gross exports amounting to RM1.16 trillion in 2009 and expected to nearly double to RM2.19 trillion in 2015. Currently, about

Chart 3-10

Malaysia ranks 10th in the World Competitiveness Scoreboard 2010



Notes: Figure on left side of chart in brackets refers to 2009 ranking, figure on left side of chart not in brackets refers to 2010 ranking, figure on right side of chart are indices (0 to 100)

SOURCE: IMD World Competitiveness Yearbook 2010

60% of Malaysia's exports are with countries with which Malaysia has signed FTAs, either bilaterally or through ASEAN. Malaysia will leverage on FTAs and introduce several initiatives to expand its global export market share as follows:

- Expanding export markets;
- Assisting Malaysian firms to break into export markets;
- Building trade momentum from FTAs and
- Reducing transaction costs.

Expanding Export Markets

Given the vital importance of trade to the Malaysian economy and increasing competition for markets, export promotion will be intensified in fast growing markets in East Asia, India and Gulf Cooperation Council (GCC) countries, and increased market presence will be established in new and emerging markets such as Africa, Latin America and Central Asia. Opportunities in traditional markets such as the ASEAN, the United States and European Union will be optimised by expanding into new market segments as well as enhancing market visibility and strengthening the credibility of Malaysian goods and services. ASEAN will be a key focal point as the ASEAN Free Trade Area has now been fully realised and has created a virtually duty free market of close to 600 million people.

Malaysian firms will be assisted to promote their products and services through specialised marketing missions, incoming buying missions, trade investment missions and trade fairs. Branding initiatives will be undertaken more aggressively to create more Malaysian global brands. The capability of Malaysian firms to export will be enhanced through various support programmes. Firms will also be encouraged to adopt and comply with international standards and requirements on quality, safety and environment to improve market access for their products and services.

Assisting Malaysian Firms to Break into Export Markets

Expanding business into the export market remains a challenging task for many Malaysian firms. To facilitate the expansion of Malaysian firms into the export market, the Government will provide assistance in the form of export promotion, improve international branding of leading exporters and build capacity. Specific initiatives include:

- **Services Export Support.** Financial assistance to conduct feasibility studies and secure tenders for international projects as well as for export promotion activities;

- **Brand Promotion Programme.** Financial assistance to firms to develop their brands in the international market such as for developing brand strategy, training in brand development, conducting brand market research and participating in international events. The target is to generate 200 internationally recognised Malaysian brands by 2015;

- **Malaysia Institute of Exports.** Establishing a Malaysia Institute of Exports to provide training for Malaysian exporters and provide information on target export markets; and

- **EXIM Bank.** Enhancing the capacity of EXIM Bank to provide financing to a broad range of Malaysian companies exporting products and services.

Additional support will be provided to SMEs as they are significantly under-represented in Malaysia's exports. As in many other countries, exporting is a more challenging proposition for SMEs than it is for larger firms. The Government will introduce a more active set of policies and activities to assist Malaysian SMEs to break into export markets. Activities will include support programmes to encourage SMEs participation in international trade events, export training, providing shared infrastructure and services overseas, and financial assistance such as the Market Development Grant, which will target to generate 4,000 new exporters during the Plan period.

Building Trade Momentum from FTAs

Malaysia has to-date concluded bilateral FTAs with Japan, Pakistan and New Zealand and regional ASEAN agreements with China, Japan, Korea, India and Australia-New Zealand.

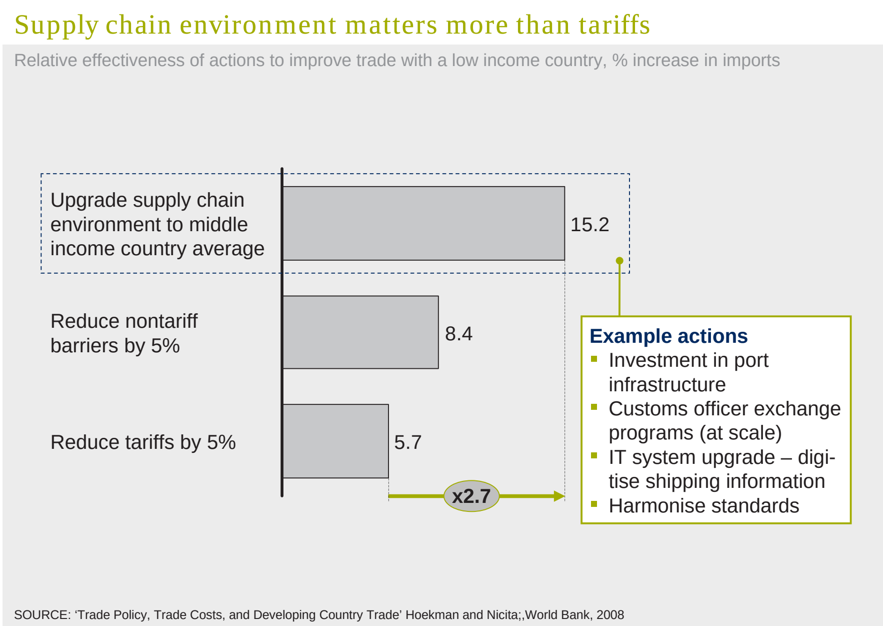
The challenge is to build more meaningful trade momentum from the FTAs that have been concluded. Assisting Malaysian companies to seize the potential from the FTAs will be an important focus under the Plan period. As many other countries have experienced, signing an FTA does not necessarily translate into improved exports. There is recent evidence suggesting that only about 20% of firms in Asia take deliberate advantage of the preferences provided by the FTA. To extract full potential of the FTAs, the Government will help firms understand the opportunities provided by the FTAs in these markets and will provide appropriate support to access the opportunities that have been generated in these markets.

Moving forward, while WTO will remain the primary vehicle to open up markets on a most favoured nation basis, Malaysia will continue to engage in bilateral and regional preferential trade arrangements with its important trading partners to complement efforts in the WTO and seek better access to individual markets. During the Plan period, Malaysia will target free trade arrangements with the EU, Transpacific Strategic Partnership, ASEAN+3 and several emerging economies. In pursuing new FTAs, Malaysia will undertake a thorough evaluation of costs and benefits to Malaysian businesses to ensure that they achieve beneficial outcomes.

Reducing Transaction Costs

International experience shows that upgrading supply chain and reducing transaction cost can be substantially more effective than reducing tariff and non-tariff barriers, as shown in *Chart 3-11*. An active programme for reducing transaction costs such as customs procedures and logistics will be undertaken to facilitate trade and unlock the potential of FTAs. This will include expansion of services under the National Single Window to include services for Free Zone declarations, dangerous goods declarations and non-customs permit. The Government will also promote

Chart 3-11



greater use of ICT in the provision of cross border customs and logistics services and will review all regulations and procedures pertaining to trade with the view to reduce cost and time as well as increase efficiency.

Competing to Attract Foreign Investment and Talent to Malaysia

Global and regional competition for talent and FDI is increasingly intense. To achieve the target of becoming a developed nation by 2020, Malaysia must improve its performance in attracting and retaining FDI flow. As *Chart 3-12* illustrates, Malaysia does not compare well against other countries in the region on FDI. It is also not attracting and retaining its share of expatriate talent, as shown in *Chart 3-13*. To bolster performance in these critical areas, the following initiatives will be undertaken:

- Benchmarking Malaysia's attractiveness;
- Empowering Malaysian Investment Development Authority (MIDA) to attract investment; and
- Investing in talent recruitment.

Chart 3-12

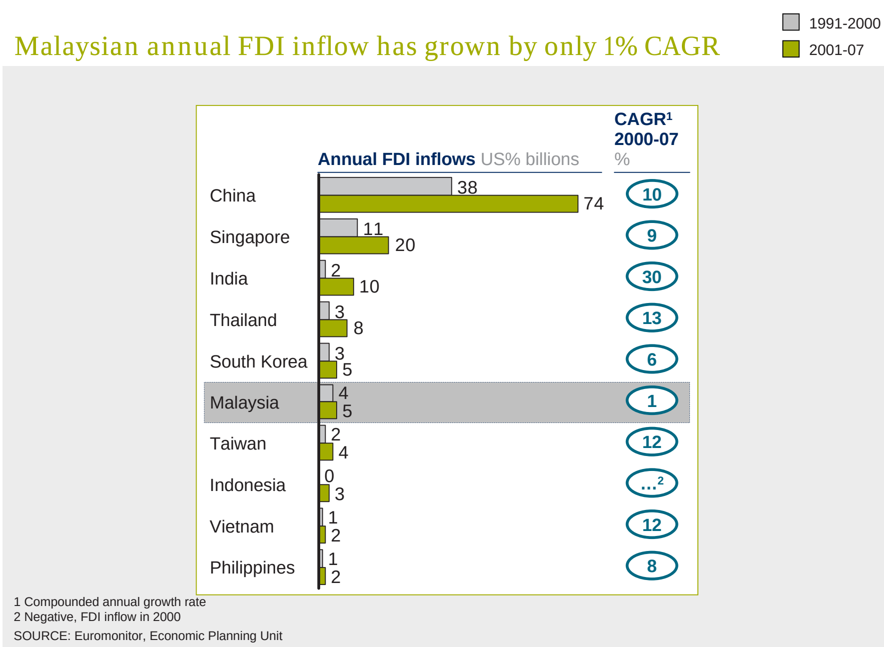
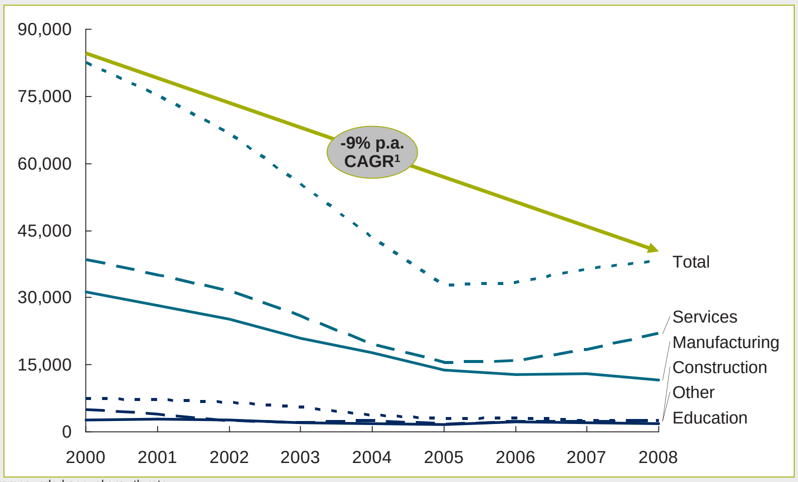


Chart 3-13

The overall number of expatriates in Malaysia has declined since 2000

2000-2008; Number of workers



1 Compounded annual growth rate

SOURCE: Economic Planning Unit

Benchmarking Malaysia's Attractiveness

The Government will conduct an annual survey to develop a richer understanding of the drivers of the location decision of investors, companies, and people. Once the key factors are identified, data will be collected on these factors and publicly benchmarked against other relevant countries. This will inform the Government's policy decision-making process in order to ensure that Malaysia is as well positioned to compete for capital and talent. Based on this benchmarking, Malaysia will make appropriate adjustments to increase its attractiveness. Among the initiatives that will be considered are further easing regulatory burden, providing industry-tailored incentives and providing reduced corporate and personal income tax rates to selected industries in specific locations, such as the 15% income tax rate currently in effect for qualified knowledge workers residing and working in Iskandar Malaysia, Johor. In addition, physical infrastructure and utilities, including industrial parks, will be upgraded to support industries.

Empowering MIDA to Attract Investment

MIDA is the principal agency for the promotion of the manufacturing and services sectors. MIDA will target both domestic investment and FDI in priority sectors and geographies and those that support innovation and productivity growth. The focus will be on attracting quality investment rather than quantity. Several important changes will be made to MIDA during the Plan period to make it a more effective investment promotion agency. These changes will enable MIDA to approve incentives in real time and act swiftly to engage investors more effectively. MIDA will be:

- Corporatised to enable the necessary organisational flexibility to attract and retain the talent it needs to be internationally competitive;
- Given the authority to negotiate directly with investors for targeted projects; and
- Designated as the central investment promotion agency for the manufacturing and services sectors (excluding utilities and financial services), to enhance the coordination and cohesion among the relevant investment promotion bodies in the country.

Investing in Talent Recruitment

Liberalisation has increased the mobility of talent with an increasing number of highly skilled and knowledge workers moving to developed countries drawn by excellent working conditions, good quality of life and better compensation packages. To effectively compete for talent, Malaysia will introduce several initiatives including establishment of the Talent Corporation (TC). The TC will be established under the Prime Minister's Department with the mandate to drive solutions to attract, motivate and retain the talent needed for a high-income economy.

TC will have three key roles: as a catalyst to lead and drive innovative national talent management initiatives; as a facilitator for private sector efforts in attracting, creating and motivating a world class workforce; and to deliver major national initiatives on talent across the human capital development pipeline. This will include leveraging the diaspora of Malaysians abroad, simplifying the path for foreign talent to work in Malaysia, ensuring better working conditions and providing the appropriate incentive packages. The National Talent Blueprint will also be formulated by 2011 to identify the talent needs focused on the NKEAs and develop the specific initiatives to accelerate the pipeline for the talent required.

ESTABLISHING WORLD-CLASS INFRASTRUCTURE TO SUPPORT GROWTH AND ENHANCE PRODUCTIVITY

An advanced high-income economy requires world-class infrastructure to support its economic activity. During the Plan period, continued investments will be made to upgrade the quality of the nation's infrastructure including broadband networks, ports, double-track railway lines and airports that enhance access and connectivity and, therefore, improve productivity. Infrastructure development will also include enhancements in systems to deliver fuel and electricity which are fundamental to attracting new investments, as well as encouraging existing industries to expand into high value-added activities.

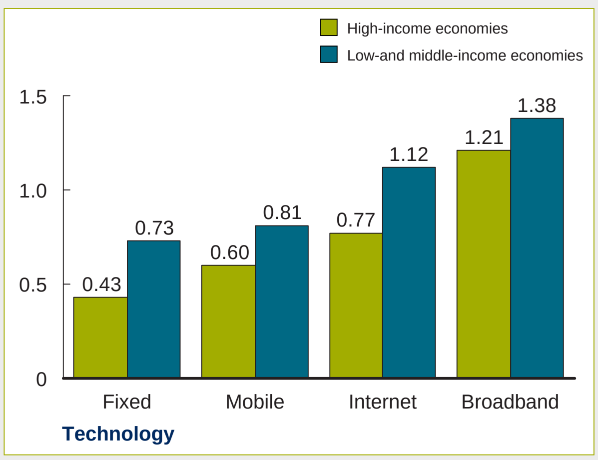
Increasing Broadband Penetration

Broadband is a key economic enabler and has the potential to revolutionise the way Malaysians live, work and play, while delivering real economic benefits via increased productivity. It will also spur the development of the domestic content industry and e-commerce. According to a World Bank study, a 10% increase in household broadband penetration can increase GDP growth by more than 1%, as shown in *Chart 3-14*. To capture this opportunity the Government has set a target of

Chart 3-14

A 10% increase in broadband penetration can support more than 1% increase in GDP growth

% increase in GDP growth per 10% increase in telecommunications penetration[1]



1 All results are statistically significant at the 1% level except for that of broadband in developing countries, which is at the 10% level

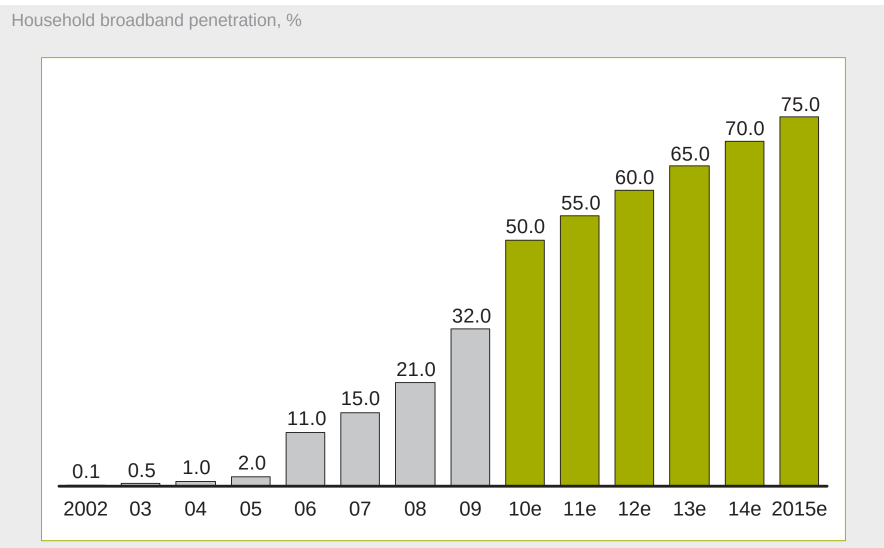
SOURCE: Information and communications for development report 2009, World Bank raising household broadband penetration to 75% by the end of 2015, as shown in *Chart 3-15*. This will be achieved via two main initiatives: High-Speed Broadband (HSBB) and Broadband to General Population (BBGP), which leverage both wired and wireless technologies.

The HSBB initiative will cover about 1.3 million premises by 2012 in the high population, high economic impact 'Zone 1' areas (state capitals, large urban and industrial zones) as shown in *Chart 3-16*. HSBB will offer speeds of up to 100 Megabits per second (Mbps) through Fibre-to-the-Home (FTTH) technology. The HSBB will be complemented by the BBGP which will cover 'Zones 2 and 3' (semi-urban and rural areas). The national rollout of broadband is expected to incur a cost of approximately RM2.6 billion. The cost of HSBB rollout will be complemented by the private sector whereas that of BBGP will be partly funded through Universal Services Provision Fund.

The Malaysian Communications and Multimedia Commission (MCMC) will further strengthen the regulatory framework to ensure an equitable, non-discriminatory and a level playing field to increase competition and benefit consumers. Additionally, to stimulate demand for broadband,

Chart 3-15

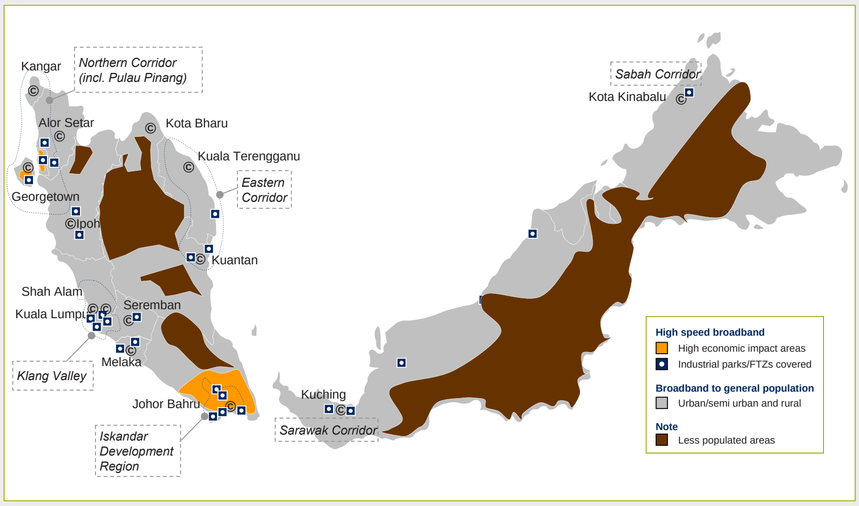
Malaysia's broadband penetration reached 31% of households in 2009 and is expected to reach 75% in 2015



SOURCE: Ministry of Information, Communications and Culture (MOICC) and Malaysia Communications and Multimedia Commission (MCMC)

Chart 3-16

Broadband coverage map in 2015



Note: Areas are indicative, not to scale and may change according to detailed plan. BBGP co-exist in all HSBB areas

SOURCE: Malaysian Communications and Multimedia Commission (MCMC)

a series of measures will be introduced, including tax rebates for broadband subscription, providing affordable packages for students and the rural population, encouraging computer ownership as well as promoting development of local content both in the public and private sectors. The existing Uniform Building By-law 1984 will also be amended to make it mandatory for developers to provide broadband facilities in residential and commercial areas.

Continuing to Upgrade Physical Infrastructure to Enhance Access and Connectivity

Physical infrastructure plays a vital role in supporting the economic development of Malaysia and is important for domestic businesses, the export sector, tourism, and to attract investment. Key physical infrastructure initiatives during the Plan period include:

Multimodal Transport Network

In line with the objective to improve trade efficiency and enhance logistics systems, a multimodal transportation network will be further developed. About RM2.7 billion will be invested to build roads and rail leading to key ports and airports while logistics management will be improved to enhance efficiency of transportation of cargo through rail, ports and airports. The East-Coast Highway from Kuantan to Kuala Terengganu will be completed in 2012, which, coupled with the expansion of Kuantan Port, will provide the basic infrastructure for trade activities and cargo movement along the east coast corridor of Peninsular Malaysia. The completion of the Penang Second Bridge, which links the mainland to the island of Pulau Pinang will provide better connectivity and accessibility to the Penang International Airport, boosting economic growth in Pulau Pinang. Similarly, the South Klang Valley Expressway, which is expected to be completed in 2012 will provide a second access to Westport of Port Klang.

Rail Development

To facilitate greater freight rail movement and relieve congestion on roads, the electrified double-track railway project will be extended to Johor Bahru to complete the network and increase operational efficiency. With the completion of the double-track project from Johor Bahru in the south to Padang Besar, Perlis in the north, at an estimated cost of RM16.5 billion, the share of freight volume by rail is expected to increase to 10% in 2015 from the current 1.3%, resulting in a reduction of transportation costs. To accommodate increasing freight volume, existing train sets will be refurbished and new ones will be purchased. In the east coast of Peninsular Malaysia and Sabah, rail services will be enhanced by modernisation of facilities and technologies to increase access to rural areas. In addition, a mass rapid transit system covering a 20km radius from the Kuala Lumpur city centre will be implemented and is expected to carry 2 million passenger-trips per day when completed.

Maritime Infrastructure

Ports remain a vital component in transportation of bulk cargo. During the Plan period, a national port policy will be formulated to outline the objectives, strategic directions and further development of the port sector. Maritime infrastructure will be upgraded to ensure competitiveness of Malaysian ports, including spending about RM1 billion for the capital dredging of port channels to cater for bigger vessels and upgrading works at Westport of Port Klang, Selangor and Port of Tanjung Pelepas, Johor to provide additional capacity for import and export of goods. Key private investments during the Plan period will include upgrading works of Westport, Port of Tanjung Pelepas and Penang Port, totalling RM6 billion.

Airport Development

Economic growth increased mobility of people while continuing efforts to attract tourists has resulted in more passenger and cargo traffic. Airline passenger arrivals are expected to grow from 47 million in 2008 to 62 million in 2015 and this will necessitate expansion of airport capacity at a cost of RM3.3 billion. A new low cost carrier terminal will be built at Kuala Lumpur International Airport (KLIA) to cater for the rising number of flights. In addition, the Penang International Airport will be upgraded, in terms of both passenger and cargo facilities, to support the development of the Northern Corridor Economic Region (NCER). The expansion of airport capacity will be complemented with concerted efforts to attract more airlines, thus creating better connectivity to support KLIA as an aviation hub. Additionally, a council consisting of major stakeholders will be formed to address issues pertaining to the aviation sector including formulating a route allocation policy.

Ensuring Effective Sourcing and Delivery of Energy

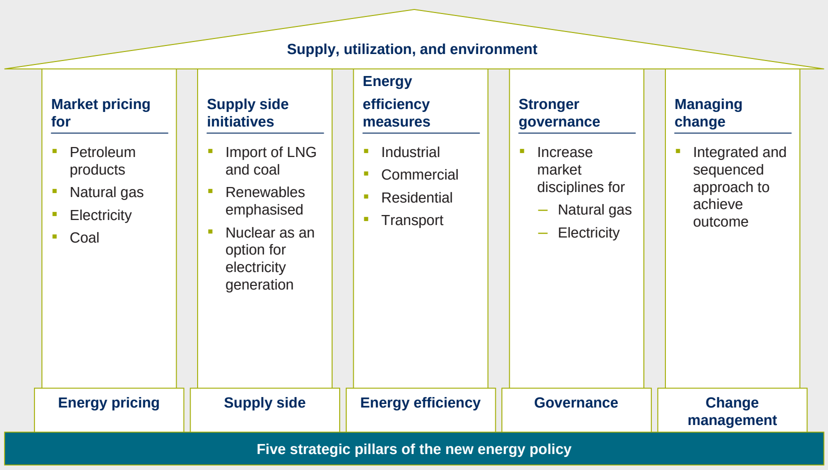
A reliable, high-quality and cost-effective supply of energy is fundamental to attracting new investments as well as encouraging existing industries to expand into high value-added activities. The New Energy Policy (2011-2015) emphasises energy security and economic efficiency as well as environmental and social considerations. The Policy will focus on five strategic pillars: initiatives to secure and manage reliable energy supply; measures to encourage energy efficiency (EE); adoption of market-based energy pricing; stronger governance and managing change, as shown in *Chart 3-17*.

Initiatives to Secure and Manage Reliable Energy Supply

Energy security will be enhanced through the development of alternative resources, particularly hydro as well as importation of coal and liquefied natural gas (LNG) by 2015. In the transport sector, blending of bio-fuel will be made mandatory beginning in 2011, further enhancing fuel security. Development of new coal-based plants will be undertaken to ensure security of supply in Peninsular Malaysia. The application of super critical coal technology will be explored to reduce carbon emissions. In addition, the development

Chart 3-17

Five strategic pillars of the new energy policy



SOURCE: Economic Planning Unit

of nuclear energy as an option for electricity generation will be considered to ensure reliable and cost-effective supply in Peninsular Malaysia. In this regard, efforts will include feasibility studies, human capital development and public awareness campaign.

Measures to Encourage Efficient Use of Energy

During the Plan period, EE initiatives will gain momentum with the formulation of the Energy Efficiency Master Plan, setting of minimum energy performance standards for appliances and development of green technologies. These measures will encourage industries and consumers to use energy productively and minimise waste to be more competitive in the global market. In addition, new energy intensive industries will not be encouraged while energy efficient and high value added industries will be promoted. In this regard, the electricity tariff structure will be reviewed as a means of attracting high-quality investment. The production of EE related machinery and equipment will also support the development of ancillary industries and services.

Adoption of Market-based Energy Pricing

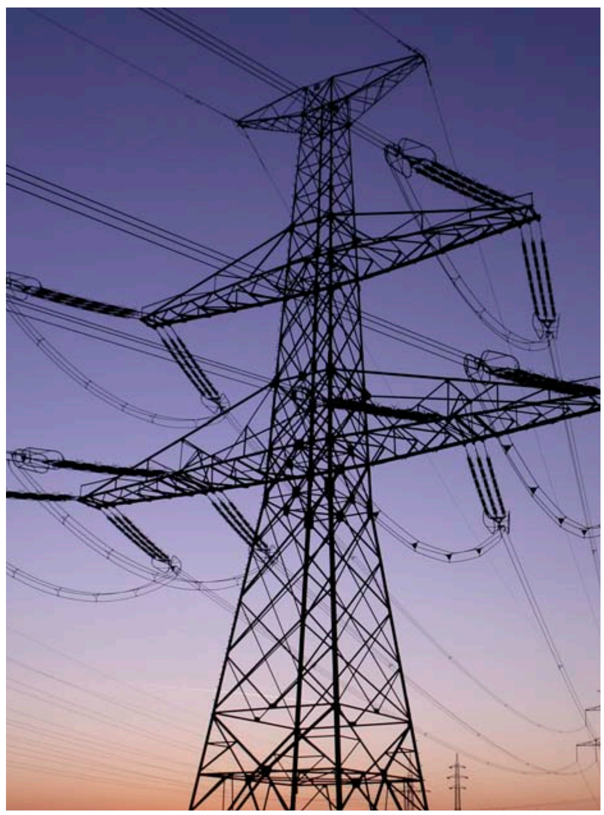
In line with overall strategy to rationalise subsidies, energy subsidies will be reduced, with the goal of achieving market pricing by 2015. Gas prices for the power and non-power sectors will be revised every six months to gradually reflect market prices. A decoupling approach for energy pricing will be undertaken to explicitly itemise subsidy value in consumer energy bills and eventually delink subsidy from energy use. For low-income households and other groups for which the social safety net is required, different forms of assistance will be provided. This will enhance transparency and improve targeting of assistance to consumers. The adoption of a market-based pricing for energy resources will also attract new players in the energy supply chain and help increase energy security.

Stronger Governance

The goal of improved governance of the energy sector is to raise productivity and efficiency. In this regard, the gas supply industry will be further liberalised to facilitate the entry of new suppliers and third-party access arrangements. The electricity supply industry will also be restructured to instill greater market discipline. This will involve measures such as creating separate accounting for generation, transmission and distribution activities; transparent and competitive bidding for new generation plants; and the renegotiation of power purchase agreements.

Managing Change

The New Energy Policy necessitates fundamental structural changes during the Plan period. There will be a broad range of initiatives, covering pricing, supply-side and demand-side management, requiring new oversight mechanisms to ensure optimum benefit. Implementation of these initiatives will be undertaken on an integrated approach to achieve the targeted outcomes.



Box 3-4

Tenth Malaysia Plan: What is in store for the private sector

In order to support the private sector the Government has set out a plethora of measures to ease business, reduce cost and stimulate growth:

What the Government will deliver:

- A supportive regulatory environment which increases the ease and reduces the cost of doing business;
- A liberalised services sector, opening up opportunities for investment and business;
- An environment providing the right market signals to make informed business decision following removal of market distortions;
- An environment that promotes fair competition and level playing field;
- An environment that supports and rewards innovation;
- Expanded opportunities for businesses to invest from the new wave of privatisation and support from the Facilitation Fund;
- Better access to financing for all stages of business growth;
- A better mechanism to support firms break into export market;
- The availability of a highly skilled talent pool with emphasis on upskilling domestic workers and easier access for expatriate employment;
- High quality infrastructure to increase efficiency and improved reliability of energy;
- Greater support for SMEs, who will gain in terms of lower regulatory requirements, additional programmes to enhance capacity, a better support system and improved access to financing; and
- New investment opportunities created out of NKEAs.

What does the private sector needs to do:

- Invest in new areas of growth and move up the value chain;
- Invest more in innovation to increase productivity; and
- Commit to improving skill levels.

FOCUSING ON KEY GROWTH ENGINES

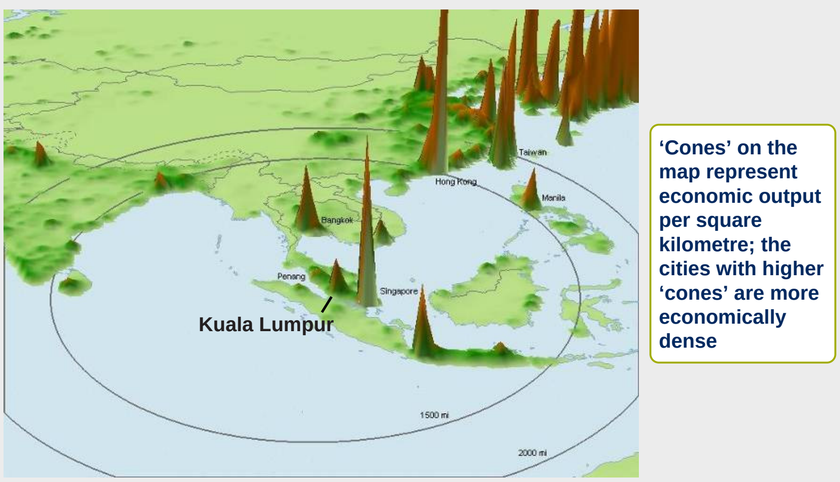
A key characteristic of the economic policy under the Plan period will be to focus growth in areas which have the highest potential for economic impact. Towards this end, priority will be given to building urban agglomerations, focusing corridors around clusters and developing high economic impact sectors. As such, 11 sectors and one geographic area have been identified as NKEAs to drive economic growth.

Driving Growth by Urban Agglomerations

There is a well established relationship between concentration of economic activity and productivity growth. Agglomeration of economic activity in urban areas allows firms to benefit from economies of scale and enjoy network effects. Greater specialisation of economic activity is also observed in densely populated areas, which correlates strongly with better economic performance. Evidence shows that cities, the nucleus of urban agglomeration, have three times the productivity of rural areas worldwide. For these reasons cities, and especially world-class cities, generate much denser 'cones' of economic activity than other areas, as shown in *Chart 3-18*.

Chart 3-18

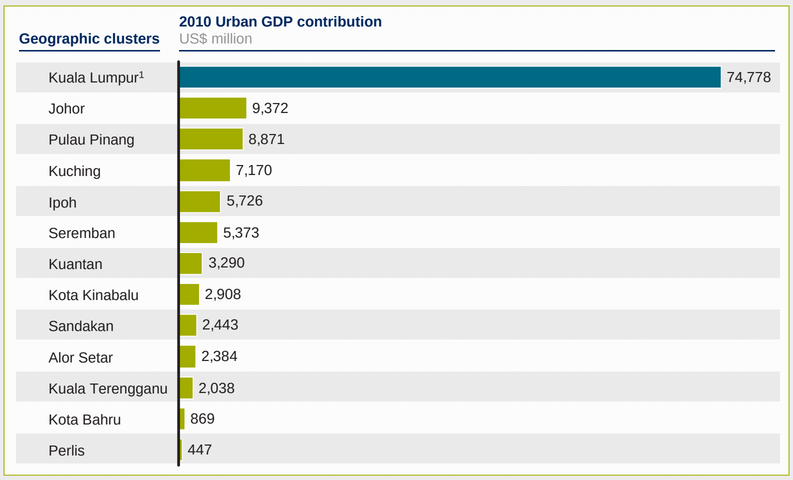
Kuala Lumpur has relatively lower economic output per square kilometre than some other Asian cities



SOURCE: Cities, People and the Economy - World Bank – Khazanah Nasional Berhad (2010)

Chart 3-19

Kuala Lumpur contributes 8 times the GDP of any other geographic cluster in Malaysia



1 Population for KL includes FT Kuala Lumpur, Klang, Petaling Jaya, Subang Jaya, Ampang Jaya, Shah Alam, Cheras and Kajang

SOURCE: World Gazeteer, Department of Statistics Malaysia

Vibrant, productive, and liveable cities also function as a magnet to attract and retain creative and knowledge workers as well as firms. World class cities are therefore a key ingredient to becoming a high income nation. For this reason, leveraging on cities to accelerate economic growth will be an important strategy during the Tenth Plan. Kuala Lumpur, as Malaysia's primary city, will be an important focal point to drive economic growth, as shown in *Chart 3-19*.

Greater Kuala Lumpur offers extensive scope for improvement in liveability, and hence attractiveness to creative knowledge workers and firms. Based on the 2010 Economist Intelligence Unit's liveability index, Kuala Lumpur ranks 79th out of 140 countries surveyed. During the Plan period, the potential of Kuala Lumpur will be harnessed by providing a comprehensive ecosystem to attract high quality investment in a selected number of areas, improving the quality of living and bring greater vibrancy. Additionally, other cities such as Georgetown, Johor Bahru and Kota Kinabalu will specialise in order to achieve critical scale, and investments will be made to improve liveability, with clearly measurable targets.

Connectivity and linkages between the cities and its hinterland and rural areas will also be improved to facilitate movement of the resources, goods and services, and people which are critical inputs to development of cities.

Focusing Corridors around Clusters

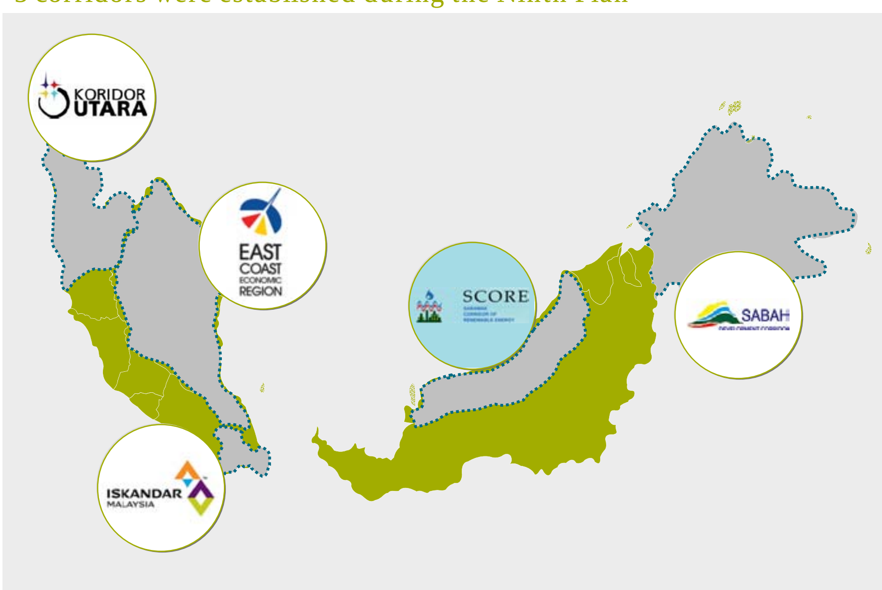
During the Ninth Plan period, the Government embarked on a number of initiatives to promote balanced regional development and accelerate growth in designated geographic areas. As a result five growth corridors were identified, as shown in *Chart 3-20.* Under the Tenth Plan, the economic development of regions will be accelerated by focusing around a limited number of high-density clusters in the corridors that have sector and geographic advantages.

Clustering enables firms to benefit from common resources, facilitates labour market matching and contributes to knowledge sharing. To achieve accelerated economic growth from corridors, the development of corridors during the Plan period will:

- Refocus on catalysing growth through collaborating with the private sector to develop priority industries;
- Focus on a limited number of sectors and clusters with clear competitive advantage to maximise impact and focus execution;

Chart 3-20

5 corridors were established during the Ninth Plan



- Focus on facilitating private investment, coordinating between agencies, supporting industry ecosystems and creating employment opportunities;

- Identify anchor investors to spearhead development of the corridors; and

- Refocus corridor authorities on smaller key industry clusters within localised geographies.

Under the Tenth Malaysia Plan, the focus of each corridor will be as follows:

Iskandar Malaysia

Iskandar Malaysia in Johor registered a total committed investment of RM59 billion as at February 2010 with 38% actualised. The committed investments were in manufacturing, properties, utilities, tourism, and logistics.

During the Tenth Plan period, Iskandar Malaysia will further draw investments into the 5 identified growth nodes to build economic clusters in the areas of education, healthcare, finance, creative industry, logistics and tourism. Among the keys projects will be the Johor Premium Outlet and MSC Cyberport City. These projects will lead to economic spin-offs and equal opportunities in employment and business to the surrounding areas. Complementing the above projects, several infrastructure projects such as the road construction surrounding Johor Bharu (JB) city centre, the improvement in the public transport system and the proposed JB City Transformation project will be implemented. The JB City Transformation project will transform the JB city centre into a vibrant economic centre while preserving its cultural and heritage values.

Northern Corridor Economic Region

The Northern Corridor Economic Region (NCER) (Koridor Utara) covers the states of Kedah, Pulau Pinang, Perlis, and the four northern districts in Perak. The NCER will focus on promoting agriculture, manufacturing and services, which comprises two components, namely tourism and logistics. It will also strengthen the key enablers of human capital, enabling technologies and infrastructure. While each region will have its respective niche areas, identified economic activities will be concentrated within the NCER Central Conurbation to achieve maximum value. During the Plan period, the key outcomes targeted include the following:

- Agriculture: To become a modern food zone with efficient technology-driven food production, commercial scale farming, farming of new crops, livestock and downstream agriculture activities;

- Manufacturing: To move up the manufacturing value chain into high-value add activities such as wafer fabrication, chip design, medical engineering devices, biotechnology and sustainable materials;

- Tourism: To be a premier destination for tourists, particularly for eco and heritage tourism; and

- Logistics: To develop the region as a major import and export centre leveraging Penang International Airport, Second Penang Bridge, double tracking and the augmentation of the Penang Port.

East Coast Economic Region

The East Coast Economic Region (ECER) covers the states of Kelantan, Pahang, Terengganu and the district of Mersing in Johor. The ECER development plan will focus on key initiatives related to tourism; oil, gas and petrochemical manufacturing; agriculture; and education.

Under the Tenth Plan, to provide more focus and strategically develop the ECER, all economic activities will be concentrated within the six identified nodes namely ECER Special Economic Zone (ECER SEZ) as the manufacturing and commercial services hub and distribution and procurement centre, Cross Border Development (Tumpat-Kota Bharu-Bachok-Tok Bali-Besut), Kuala Terengganu City Centre-Kenyir-Dungun Triangle, Mersing-Rompin, Gua Musang-Kuala Lipis and Bentong-Raub.

Sarawak Corridor Renewable Energy

The Sarawak Corridor Renewable Energy (SCORE) is located within the Central Region of Sarawak. The core of the Corridor is its energy resources, particularly hydropower, of 28,000 MW. This allows Sarawak to price its energy competitively and encourages investments in power generation and energy-intensive industries.

Five growth nodes have been identified with the aim of focusing development and investment efforts within SCORE. These growth nodes are Tanjong Manis, Mukah, Samalaju, Baram and Tunoh. The Mukah Node will be developed into a Smart City and will serve as the service and nerve centre for the Corridor. The Tanjong Manis Node will be developed into a leading regional port city and Halal Hub. The Samalaju Node will become the new heavy industry centre, whereas Baram and Tunoh will focus on tourism and resource based industries.

As economic activity spills over from the major growth nodes, the Corridor's secondary growth centres such as Semop, Balingian, Selangau, Samarakan, Bakun and Nanga Merit will also benefit. Priority industries which will be promoted and developed through greater private sector participation include aluminium, glass, steel, oil-based, palm oil, fishing and aquaculture (Halal Hub), livestock, timber-based, marine engineering and tourism.

Sabah Development Corridor

The Sabah Development Corridor (SDC) covers the entire state of Sabah but will focus on the identified Strategic Development Areas (SDAs) to generate employment and income for the local people and contribute towards sustainable economic growth. Development in these areas will have spill-over benefits for the hinterland and surrounding areas. The SDAs and their corresponding key economic activities consist of the following:

- Sandakan-Beluran-Kinabatangan Bio-Triangle: Beluran and Tongod Agropolitan, Agrobio Innovation Zone-Sandakan Education Hub, POIC Sandakan;

- Lahad Datu-Kunak-Semporna-Tawau Agro-Marine Belt: POIC, Integrated Agro-food Zone and Marine Industry and Tourism Zone;

- The Interior Food Valley: Keningau Integrated Livestock Centre, fruits and herbal products within the Interior Agropolitan Zone;

- Oil and Gas Clusters: petrochemical complex, oil and gas support services, oil refineries and tank farms, and power plants;

- Kinabalu Gold Coast Enclave: creative industry cluster, wellness and healthcare, floriculture and specialty natural products, marine sports, signature resorts and holiday homes; and

- Brunei Bay Integrated Development Area. Multi-modal logistics, tourism and waterfront development; livestock, food crops, fisheries and aquaculture, and halal products.

National Key Economic Areas

During the Tenth Plan period, Malaysia will focus its economic growth efforts on NKEAs. An NKEA is defined as a driver of economic activity that has the potential to directly and materially contribute a quantifiable amount of economic growth to the Malaysian economy.

When countries transformed from middle to high income they have typically focused on a small number of sectors and geographies. Malaysia also needs to focus on a limited number of sectors and geographies in order to achieve the goal of becoming a high income nation.

The economic reform measures in the Tenth Malaysia Plan such as modernising of business regulations, human capital development, increasing domestic competition, removing market distortions and improving infrastructure will provide the enabling ecosystem for NKEAs.

The NKEAs were chosen on the basis of their contribution to high income, sustainability and inclusiveness.

An initial set of 12 potential NKEAs have been identified comprising 11 sectors and one geographic area - Kuala Lumpur. Kuala Lumpur was chosen because it accounts for almost one-third of Malaysia's total GDP and urban agglomeration can be a major driver of economic growth.

Each NKEA will have specific targets and concrete actions to drive economic growth. Implementation of these actions will be monitored by the Economic Delivery Unit with the Prime Minister providing overall leadership. The NKEAs are:

1. **Oil and gas;**
2. **Palm oil and related products;**
3. **Financial services;**
4. **Wholesale and retail;**
5. **Tourism;**
6. **Information and communications technology;**
7. **Education;**
8. **Electrical and electronics;**
9. **Business services;**
10. **Private healthcare;**
11. **Agriculture; and**
12. **Greater Kuala Lumpur**

1) Oil and gas

Oil and gas industry through its upstream and downstream activities is a significant contributor to economic growth. In 2009, the sector contributed a total of RM68.3 billion or 13.1% of GDP, of which upstream activities including petroleum and gas represented RM39.5 billion or 7.6% of GDP and downstream activities including the petrochemical industry contributed RM28.8 billion or 5.5% of GDP. Given the rise in global energy demand and economic growth, the contribution from oil and gas industry is expected to increase by approximately 20% over the next 5 years to reach RM81.9 billion or 11.1% of GDP in 2015. Upstream is expected to contribute RM43.0 billion or 5.8% of GDP whereas downstream is expected to contribute RM39.8 billion or 5.3% of GDP in 2015.

The availability of national reserves has given Malaysia distinctive advantage to focus on oil and gas industry. Solid infrastructure across the value chain such as offshore rigs, three integrated petrochemical zones and a world-class LNG production site have been built to support the growth. PETRONAS, the national oil corporation, plays a major role in driving the industry growth through its development of oil and gas resources as well as creation of opportunities for local companies to build up their capacity and capability across the value chain.

In the downstream segment, three major integrated petrochemical zones have been established and attracted foreign investments mainly from USA (33.0% of total foreign investments), Germany (22.8%) and Japan (14%); while having PETRONAS as the main domestic investor. During the Plan period, the investment target in petrochemical industry has been set at RM11.3 billion annually and exports from this industry are expected to reach RM27.7 billion in 2015.

To drive growth further, Malaysia will accelerate and optimise the development of remaining domestic reserves and existing infrastructure as well as support the formation of regional and global champions in contiguous business sectors. Despite the declining conventional oil and gas resource base, there remains significant potential in mature, small and technically complex fields. Malaysia has developed expertise in engineering, procurement, construction, commissioning and installation of offshore and onshore oil and gas facilities, which Malaysia can leverage to focus on oil field services and equipment (OFSE). Potential opportunity also presents in the logistics which Malaysia is one of the world's largest owner and operator of LNG carriers.

To leverage its potential, the following initiatives will be taken:

- Increasing international market access;
- Enhancing skills (both technical and management) training in partnership with industry;
- Enhancing linkages in the downstream industries to optimise resources, facilities and services available at the integrated petrochemical complex;
- Expanding opportunities in logistics and maritime business activities; and
- Strengthening oil and gas related professional services and creating international champions such as in OFSE, those related to deep water extraction and integrated service providers.

2) Palm oil and related products

Malaysia is a global leader in the palm oil and basic oleochemicals industry. In 2009, this sector contributed RM17.0 billion or 3.3% to GDP and accounted for RM49.6 billion in exports. Between 2005-2009, total oil palm planted increased by 15.8% to 4.69 million hectares and crude palm oil production increased by 17.4% to 17.6 million tonnes. However, despite these achievements, the industry continues to face issues related to low productivity among smallholders, rising cost of production and dependency on foreign labour in upstream activities. Further, downstream activities are confined to intermediate processing.

Significant untapped opportunities exist to grow this sector, particularly in downstream activities that generate high value add. During the Plan period, the target is to increase the palm oil industry's output to GDP to RM21.9 billion with export earnings of RM69.3 billion. To achieve this target, the following are some of the initiatives that will be undertaken:

- Promoting Malaysia as a global hub for palm oil and preferred destination for foreign investments in areas such as oleochemical based products, bulking facilities and R&D;

- Developing Palm Oil Industrial Clusters into integrated sites for promoting downstream activities such as biofuel, oleochemicals, biofertilisers, specialty food products, biomass products, nutraceuticals and pharmaceuticals;

- Encouraging good agriculture practices, agronomic management and mechanisation especially among smallholders; and

- Centralising procurement of agricultural inputs such as fertilisers and pesticides to lower input costs for smallholders.

3) Financial services

The financial services sector is well positioned to respond to the challenging and evolving global environment and enhance its contribution to the Malaysian economy. This is due to financial reforms over the last decade that have enhanced institutional capacity, domestic financial infrastructure and strengthened the regulatory and supervisory framework. The contribution of the financial sector to economic growth is high, accounting for 11.7% to GDP as at end-2009. During the Tenth Plan period, the finance and insurance sectors are targeted to grow at 8.3% and contribute 12.7% to GDP.

The Malaysian capital market, comprising equity and bond, grew by 10.2% to RM1.7 trillion and achieved strength across broad fronts between 2006 and 2009. The Islamic capital market with the most liquid *sukuk* market, accounting for 62% of the global *sukuk* market share, and the largest Islamic fund management industry remains a key competitive strength for Malaysia. Despite the successes of the Malaysian capital market, it still faces major challenges going forward, especially with market liquidity. Malaysia's liquidity ranking in Asia dropped from 3rd in 1996 to 14th in 2010. In addition, Malaysia's economic structure and growth prospects are constrained by the relatively low level of investment relative to its high level of domestic savings.

During the Plan period, the financial sector will be further strengthened so that it remains competitive, resilient, diversified, inclusive and continues to meaningfully contribute to economic growth. The role and liquidity of capital market will also continue to be enhanced. Key initiatives within this Plan period include:

- Formulating a new financial sector blueprint to articulate strategies to further evolve the Malaysian financial sector to support and drive the next phase of Malaysia's economic development, which includes promoting financial inclusion and continued equitable financing access to all segments of the economy, greater leveraging of technology and innovation in the delivery of financial services, enhancing the financial system infrastructure including institutional and capacity building, and implementing adequate safeguards to preserve financial stability. The structural issues within the general insurance industry will be addressed by promoting further consolidation and rationalisation. Insurance penetration will also be enhanced via alternative distribution channels and greater product innovation;

Continued on next page

3) Financial services (continued)

- Enhancing Malaysia's position in Islamic finance globally via the strengthening of the Malaysia International Islamic Financial Centre (MIFC) initiatives, fostering greater linkages and collaboration with international standard setting bodies and other jurisdictions, and streamlining R&D development to enhance Malaysia's attractiveness as a preferred centre for Islamic financial education, research, training and product innovation. Focus is also placed on ensuring the dynanism and robustness of the established financial infrastructure, comprising the regulatory, legal and *Shariah* framework, research and training institutions; and

- Developing the Capital Market Masterplan 2 with strategic initiatives to expand the role of capital market in supporting the transition to a high income and knowledge-based economy. This will include deepening secondary market liquidity and creating better possibilities for managing risks to encourage exploration of investment opportunities in new growth and innovative areas. This will involve broadening the variety of new financing alternatives and accelerating the growth of capital market industries such as fund mangement, venture capital and private equity.

4) Wholesale and retail

Distributive trade is among the biggest sub-sectors in the services industry, contributing 13.3% to GDP and RM334 billion in terms of sales in 2009. This sector also attracted FDI worth RM1.2 billion in 2009. During the Ninth Plan period, the sector underwent structural changes with the emergence of large scale retailers such as hypermarkets and other modern retailers including convenience stores.

There are opportunities to continue to grow this sector as demographics change, rapid urbanisation takes place and increasing affluence changes consumer behaviour and increases demand for better services. Further, alternative modes of retail trade such as franchise, direct selling and e-commerce have yet to be fully exploited.

During the Plan period, distributive trade is expected to register a growth rate of 8.3% per annum, contributing 15.1% of GDP in 2015. To achieve this, the sector will be modernised and transformed to be more efficient with higher quality services to consumers. Initiatives to be undertaken include:

- Liberalising the retail and wholesale sector and promoting investment;
- Encouraging consolidation among local retailers to encourage efficiencies and achieve economies of scale;
- Encouraging modern retail formats such as hypermarkets, supermarkets, convenience stores, specialty stores to stimulate investment and expedite modernisation; and
- Promoting franchise, direct sales and e-commerce to achieve their full potential.

5) Tourism

Malaysia ranked 16th in terms of global inbound tourism receipts, capturing approximately 2% of global market share in 2008. The tourism industries employs 1.7 million workers or approximately 16% of total employment in 2008. Between 2006-2009, revenue from the tourism industry increased 67.1% to RM53.4 billion and tourist arrivals increased 43.6% to 23.6 million.

Despite these achievements, several issues need to be addressed, including the need to develop vibrant and iconic tourism products, improve maintenance of existing tourism sites and adopting focused tourism promotions. During the Plan period, the target is to improve Malaysia's position to be within the top 10 in terms of global tourism receipts and increase the sector's contribution by 2.1 times, contributing RM115 billion in receipts and providing 2 million jobs in the industry in 2015.

To achieve the 2015 target, the focus will be on attracting a larger share of high spend travellers and capturing a higher share of high growth segments, particularly from Russia, India, China and Middle East, in addition to increasing the number of tourist arrivals. For this purpose, select key strategies are as follows:

- Promoting differentiated strategies to cater for unique and distinctive travel patterns and needs such as for nature adventure (including ecotourism), cultural diversity, family fun, affordable luxury, and Meetings, Incentives, Conferences and Exhibitions (MICE);

- Improving tourism products through the creation of focused tourism clusters that will leverage on existing and new iconic tourism products. For example, Langkawi (the Geopark and Pulau Payar Marine Park), Pulau Pinang (Georgetown UNESCO World Heritage Sites), Sabah (Sipadan Island and Kinabalu Park UNESCO World Heritage Sites) and Sarawak (Sarawak Cultural Village and Gunung Mulu National Park UNESCO World Heritage Sites);

- Developing new iconic tourism products through the private sector and public-private partnership. Examples include Kidzania and Malaysia Truly Asia Centre in Kuala Lumpur and Legoland Malaysia in Iskandar Malaysia, Johor. Tourism products and activities such as parks and gardens, arts tourism, shopping, signature events and festivals will also be promoted;

- Improving maintenance of tourist sites through multiple approaches, including through GLCs and corporate sponsorship, stronger enforcement and imposition of gate fees, particularly in environmentally sensitive and heritage sites;

- Realigning promotional and advertising activities and physical presence of Tourism Malaysia offices overseas by focusing on core markets, particularly Russia, India, China and Middle East; and

- Introducing progressively certification of tourism products and activities to ensure quality, sustainability and safety.

6) Information and communications technology

The information and communications technology (ICT) sector accounted for 9.8% of GDP in 2009. This sector will continue to be a key focus for Malaysia and is expected to gain greater momentum driven by the convergence of industries due to digitalisation. The contribution of the ICT industry to GDP is targeted to increase to 10.2% by 2015. Greater use of ICT will not only support the growth of the sector but also boost productivity and raise the nation's overall competitiveness. However, to achieve growth, Malaysia needs to shift from being an average producer of general ICT products and services to a niche producer of selected ICT products and services, and progress from a net importer to a net exporter. Issues of lack of product acceptability, weak product branding and lack of cross-discipline expertise will be addressed. Key strategies that will be adopted to propel the industry are as follows:

- MSC Malaysia will identify and support the development of niche areas in software and e-solutions, creative multimedia, shared services and outsourcing as well as e-business. FDI strategy will be to attract MNCs to anchor these selected focus areas, with clusters of knowledge-based SMEs around the MNCs. A tiered benefits scheme will be established whereby financial and non-financial benefits will be provided based on the company's needs, size, stage of maturity and criteria such as the ability to catalyse the development of SMEs in priority sectors and induce high spill over effects;

- The Government will aggressively promote the use of ICT in all industries in parallel with the development of the ICT sector. Cloud computing services will be developed to provide SMEs with critical software applications for customer relations management, enterprise resource planning, supply-chain management, human resource management, and financial and accounting management. Niche areas for applications development include healthcare, education and financial services especially in Islamic banking;

- In the creative industry that currently contributes about 1.6% to GDP, emphasis will be on creative multimedia, especially animation for simulation, advertising and entertainment, and games development. A National Creative Industry Policy will be formulated and the National Digital Terrestrial Television Broadcasting (DTTB) project will be rolled-out to help spur the expansion of related creative industries. With DTTB technology, more content will be delivered more efficiently; and

- Education and training will be prioritised to meet the human resource requirements in this sector. This will be done through focussed collaboration between the industry-academia-government, especially for curriculum development and industrial training.

7) Education

Private education services has witnessed a robust growth after a deregulation in the late 1990s. Given its high output multiplier (2.19-2.34), it has strong spill over effects on other sectors of the economy and has contributed directly to productivity enhancement. Driven by increased demand for places in institutes of higher learning from local and international students, the gross output of private education increased by 44% from 2005 to RM7 billion in 2008. Malaysia's current global market share stands at approximately 2% to 3% of total internationally mobile students. The target is to increase the contribution of private education to GDP by 1.5 to 2 times to 2% in 2015 and attract 150,000 international students by 2015.

The open regulatory and innovative environment has supported private education services in Malaysia to be widely recognised in the region. Nevertheless, several challenges need to be addressed in order to reach the aspired target. Key challenges include the risks of crowding out arising from the expansion of public institutions, unsustainable government funding with low share of private demand side financing and increased competition from the regional market.

To achieve the growth target and enhance Malaysia's position as a leading destination for education, several initiatives will be adopted across all levels of education with specific focus on tertiary education as follows:

- Expanding demand-side financing and undertake new provision of public higher learning institution (IPTA) seats through off-take in private higher learning institution (IPTS) and create private seats in IPTAs by expanding capacity through private subsidiaries. By 2015, 50% of public funds for higher education will be disbursed via demand side and 25% of all IPTA seats will be private 'fee-paying' seats;

- Improving quality of IPTS through performance-based funding by expanding the Rating System for Malaysian Higher Education Institution (SETARA) to cover private universities and college universities, and at the faculty level;

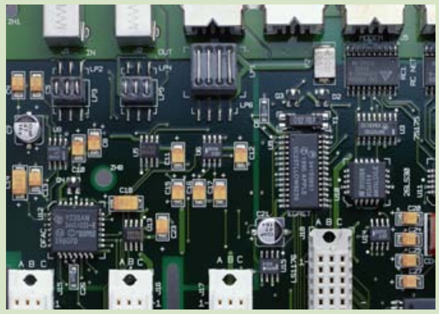
- Expanding the sliding scale on the National Higher Education Fund Corporation (PTPTN) loans to promote cost sharing based on means test of parent's income to ensure financial sustainability and increased access of low and middle income families;

- Introducing a central enrolment system for all students including international students in stages with flexible credit accumulation framework for all courses across public and private provision;

- Providing conducive educational ecosystem to attract students and world leading faculties in niche areas to set up branches in Malaysia; and

- Intensifying marketing and promotion efforts in high potential markets.

8) Electrical and electronics



The electrical and electronics (E&E) industry is the largest single contributor to the manufacturing sector accounting for 26.1% of manufacturing output. It is also the largest employer, representing more than 40% of total manufacturing labour. A strong cluster ecosystem with leading global companies like Intel, Infineon, Motorola and Agilent has been established and progress has been achieved over the past decades in terms of diversification and moving up the value chain, especially in terms of back-office shared services, development and testing. However, opportunities exist to further develop domestic capabilities, particularly in R&D and increase Malaysia's share of higher value add activities.

During the Plan period, efforts will be intensified to move the E&E industry up the value chain through effective PPPs. Opportunities in automation, miniaturisation, digitisation and multimedia applications will be pursued, and specialisation in semiconductors, embedded systems, optoelectronics, radio frequency and wireless will be promoted. The Government will focus on developing key enablers such as upskilling existing talent and increasing supply of relevant talent, strengthening the R&D ecosystem, growing the domestic vendor base and establishing infrastructure. Initiatives to be undertaken include:

- Developing centres of engineering excellence by collaborating with industry and academia, particularly for R&D and training;
- Promoting state skills training centres and co-funding masters and PhD programmes in critical fields;
- Strengthening incubators and shared services centres for knowledge SMEs; and
- Focusing incentives on strategic segments of the value chain such as design, testing and precision machining.

9) Business services

Between 2006 and 2009, business and professional services grew at 6.3% and contributed 2.6% of GDP in 2009, equivalent to RM13.3 billion. This sector has the potential to raise productivity through intra and inter sectoral linkages and the diffusion of best practices and technology. In addition, it will continue to generate knowledge-intensive employment opportunities in line with moving to a high income economy. The target is to increase this sector's contribution to 3.3% of GDP by 2015. To achieve this target, the focus will be on further developing construction related and environmental management services.

During the Tenth Plan period, the strategies to propel the construction related sector forward include:

- Providing support such as market intelligence, networks and government-to-government relations to enable firms to export professional construction services within ASEAN region, India and China as well as Organisation of Islamic Countries (OIC) countries;

- Establishing a consolidated presence and brand for Malaysian professional construction services overseas. In this regard, the role of the Construction Industry Development Board and Professional Services Development Corporation will also be rationalised; and

- Amending legislation to facilitate commitments made at bilateral, regional and multilateral levels to liberalise the industry and create new business opportunities.

Environmental management is an incipient industry with substantial growth potential in green technology and will spin off new categories of professionals and new areas of specialisation for architectural and engineering services. The key strategies to nurture the growth of this segment include:

- Streamlining the Green Technology Council to drive the green technology agenda across multiple ministries and agencies which include regulatory aspects, developmental, awareness and promotion; and

- Creating the environment and demand for the green technology industry to spur business opportunities for professional and service providers by:

  - Developing and enforcing regulations especially on energy efficiency in buildings for new developments;

  - Promoting investment in renewable energy to provide long-term contracts for renewable energy providers and create the spillover effects on the related domestic service providers; and

  - Promoting culture of conservation and efficiency in energy and water use.

10) Private healthcare

The healthcare travel industry grew by 12.3% between 2006 and 2008. In addition, Malaysia attracted over 1 million foreign patients with total medical receipts of about RM800 million. Rising affluence and an ageing and more mobile population will drive continued demand and spend for high quality healthcare services.

Malaysia aspires to create a seamless and integrated healthcare system, incorporating a competitive healthcare travel industry with strong values of professionalism and state-of-the-art medical technology. Currently, there are 273 private hospitals in Malaysia with 35 participating in the health tourism programme and 6 healthcare facilities having Joint Commission International (JCI) accreditation. As part of the initiative to promote the industry, Malaysia Healthcare brand with the tagline "Quality Care for Your Peace of Mind" was launched on 9 June 2009 and Malaysia Healthcare Travel Council (MHTC), the primary agency to promote and develop health tourism was launched on 21 December 2009.

During the Tenth Plan, the target is to grow revenue from healthcare travel by 10% per annum and make Malaysia the preferred healthcare destination in the region. Key strategies that will be adopted to achieve the target include:

- Fostering strategic alliances among local and foreign healthcare service providers, travel organisations and medical insurance groups to provide a more integrated and comprehensive package of services to healthcare travellers;
- Encouraging more private hospitals to seek accreditation with international healthcare accreditation bodies;
- Promoting investment in and utilisation of high-end medical technology to increase efficiency, effectiveness and competitiveness; and
- Intensifying coordinated and integrated promotional activities to strengthen the presence of Malaysia Healthcare brand globally.

11) Agriculture

In 2009, high value agriculture, including swiftlet farming, aquaculture, seaweed, sago, ornamental fish, herbs and spices, organic fruits and vegetables, mushroom and floriculture contributed about 1% to GDP. There is growing demand for these high value products which provide opportunities for farmers to increase their income. However, growth in these products have been constrained by limited access to suitable land and financing, lack of skilled workers, uneconomic scale operations, inadequate support services, lack of R&D support and weak linkages to the market.

During the Tenth Plan period, these high value agriculture activities will be given special focus such that the contribution to GDP increases to 2% by 2015. Strategies to achieve this include:

- Setting up agriculture consortiums and cooperatives to reap the benefits of scale, encourage adoption of accredited practices by farmers, fishermen and agropreneurs, and strengthen marketing through contract farming and strategic alliances;

- Reviewing and streamlining current regulation and procedures, particularly in the swiftlet, aquaculture and herbal industries to attract greater investments and participation from private sector;

- Promoting innovation-based growth and production processes that utilise modern farm technology and ICT, including ICT-based Agriculture Flagship Project;

- Providing adequate and specific infrastructure, facilities and logistics to support value addition activities based on availability and proximity of resources, particularly in the designated Permanent Food Production Parks and Aquaculture Industrial Zones; and

- Intensifying collaborative R&D with established agriculture research institutes to leapfrog innovation in the production processes, disease control, safety and quality control, including development of new high-value added products.

In addition, food security will be strategically addressed to ensure the availability, accessibility and affordability of food, particularly rice for the general public. During the Plan period, strategies to ensure sufficient supply of rice include maintaining rice stockpile at 292,000 metric tonnes or sustained consumption for 45 days, entering long-term contract agreements to import rice with matching agreements to export palm oil or oil, and increasing the productivity of existing granary and non-granary areas through upgrading of infrastructure. No new areas will be developed for paddy cultivation and local production of rice will be set to fulfil a 70% level of self-sufficiency.

12) Greater Kuala Lumpur

Greater Kuala Lumpur (Greater KL) comprises the national capital of Kuala Lumpur and its surrounding satellite cities. Today, Greater KL is an important economic growth cluster, contributing 8 times the GDP of any other city in Malaysia. Greater KL is well-positioned to become a national growth node, and gateway towards developing a global economy, leveraging upon its strengths of a cosmopolitan population, a uniquely Asian heritage and strong world-class infrastructure.

Liveability of Greater KL is crucial in the competition for talent, wealth and investments in the global arena. In 2010, Kuala Lumpur ranked 79 out of 130 cities under the Economist Intelligence Unit survey on liveability. Major initiatives have been identified under the national key results areas (NKRAs) to address this, particularly on combating crime and improving urban public transport. Liveability, however, encompasses a broader concept, and initiatives to create attractive public spaces, nurture a uniquely internationally relevant arts and culture scene, and provide a rich mix of leisure activities will create a distinctive urban character for Greater KL, making it an ideal place to live, work and play.

In order to position Greater KL as a world-class city, a combination of economic growth and liveability strategies will be required. Among the key programmes that will be implemented during the Plan period are:

- Establishing Kuala Lumpur International Financial District as a global financial centre, especially for Islamic finance and its related professional services, in order to attract local and international financial policy and monitoring organisations and talent;
- Establishing Sime Darby Vision Valley, which includes Guthrie Corridor Development, Ampar Tenang Green Experimental Cluster, Carey Island Eco-tourism Cluster and Sepang Estate Logistics Cluster;
- Making Greater KL a tourist destination by leveraging on existing iconic institutions such as Muzium Negara and Istana Budaya, and also Malaysia Truly Asia Centre, which is to be established during the Plan period;
- Creating a network of attractive open public spaces by developing a comprehensive open space strategy that moves beyond allocating land and infrastructure for open spaces, to one that incorporates strategies to attract people to these spaces. The 101-hectare Lake Gardens will be developed into a world-class botanical garden, connected to a citywide network of interconnected green spaces that are equipped with facilities such as cycling paths and pedestrian pathways; and
- Transforming urban public transportation across greater KL through the Mass Rapid Transit System to ensure seamless interconnectivity links.

CONCLUSION

The Malaysian economy has recovered strongly after the recent economic and financial crisis. However, sustaining the 6% growth rate needed to achieve developed nation status by 2020 will require Malaysia to address several structural challenges: raising investment and productivity, navigating a more challenging global economic environment, and responding to increased competitive pressures. In this context, the Government will adjust its economic approach during the Tenth Malaysia Plan period around four themes: driving internal competitiveness to strengthen Malaysia's global competitive position, unleashing productivity-led growth and innovation, connecting globally, and greater focus on key growth engines.

To drive internal competitiveness and strengthen Malaysia's global competitive position, the Government will make Malaysia one of the most business-friendly environment in Asia through a significant programme of liberalisation, and by empowering the MPC to identify key areas for productivity improvement. This will assist Malaysian firms to grow, and will also strengthen Malaysia's ability to attract and retain capital and talent.

To unleash productivity led-growth and innovation the Government will create an environment that supports innovation across the economy by ensuring that the business environment creates an incentive to innovate and sends the right price signals. Special focus will be placed on reducing the barriers to growth and innovation faced by SMEs by relaxing a number of regulatory requirements. Malaysia will also commit to ongoing investment in science and technology, innovation, and human capital.

To connect globally, Malaysia will continue to strengthen trade and investment relationships within the region - ASEAN, China, India - as well as with the US, Europe, and the GCC countries. The Government will support Malaysian firms to compete in global markets. In addition, actions will be taken to improve Malaysia's ability to compete to attract foreign investment and talent to Malaysia by strengthening MIDA and creating the Talent Corporation.

To ensure greater focus on key growth engines, the Government will devote disproportionate policy focus to NKEAs. There will also be a stronger focus on a limited number of other economic clusters in order to obtain the productivity benefits that are generated in these concentrations of economic activity.